R8410-11a 71

THE BUDGET AND THE REGION

A REGIONAL ANALYSIS OF THE PRESIDENT'S FISCAL 1988 REQUEST

A 50-STATE BREAKDOWN OF FEDERAL SPENDING IN SELECTED PROGRAMS

NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE

This analysis of the president's fiscal 1988 budget request was prepared by the following staff of the Northeast-Midwest Congressional Coalition, the Northeast-Midwest Senate Coalition, the Northeast-Midwest Institute, and consultants:

Northeast-Midwest Institute

Noddie Barrion
Charles Bartsch
Lynn Bock
Deborah Cooney
Diane DeVaul
Paula Duggan
Byron Harris
Fred Moseley
Dick Munson
Glenn Starnes
Joanne Stover
Wesley Warren

Northeast-Midwest Congressional Coalition

David Merkowitz
Eric Schaeffer
James Wise

Northeast-Midwest Senate Coalition

Stanley Turesky

Research Assistants

Margaret Quan
Brian Currie
Patricia Elliott
Richard P. Keigwin, Jr.
Meri Kolbrener
Morton Lorge
Doris C. Niehof
Jennifer Polli
Sarah Tucker

Consultants

David Ewing
Tom Halicki
Lynn Omlie

THE BUDGET AND THE REGION

Diane DeVaul
Project Director

Deborah Cooney
David Merkowitz
Editors

NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE

February 1987

NORTHEAST-MIDWEST CONGRESSIONAL COALITION
NORTHEAST-MIDWEST SENATE COALITION
NORTHEAST-MIDWEST INSTITUTE

The Northeast-Midwest Institute is a private, nonprofit organization dedicated to the long-term economic vitality of the states that long have formed the nation's industrial heartland: Connecticut, Delaware, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, and Wisconsin.

In late 1976, several members of Congress from states within the region met to discuss issues of common concern. Recognizing that these states had many similar problems, and believing that federal policies often created major obstacles to regional economic growth, these members of Congress formed the Northeast-Midwest Congressional Coalition. The region's Senators established its counterpart, the Northeast-Midwest Senate Coalition, in 1978.

Coalition members recognized the critical need for information and analysis of public policies as essential in identifying and furthering the interests of the region. They sponsored the formation of the Northeast-Midwest Institute as an independent source of research and analysis. The Institute responds to the needs of the 38 senators and nearly 200 representatives for up-to-date information and analysis of the regional implications of critical legislative issues.

Although members of Congress remain key clients of the efforts of the Institute, it has developed close working relationships with governors, mayors, and other state and local officials. In addition, the Institute's work is used widely among corporate and labor leaders, academics, public interest groups, and associations throughout the region and in Washington.

The Northeast and Midwest are undergoing a fundamental change in the structure of their economies. Certain key industries, such as steel, automobiles, and durable goods, though buoyed in the current recovery, have experienced long-term contractions. Some areas, such as New England, have shifted radically from an industrial base to service and information-oriented industries. Throughout the region, companies are electing to scale back or abandon some operations, consolidate others, reorganize their plants to improve productivity, and are moving into new, high-growth areas. Although heavy manufacturing will not disappear from the Northeast-Midwest industrial belt, the region's economic profile is changing rapidly.

These transitions create tremendous opportunities for economic growth. However, they also put enormous stress on state and local governments by displacing workers, disrupting communities, straining state treasuries, and altering the business climate. In response, the Northeast-Midwest Institute and Coalitions encourage public policies to ease the pressures and support the continued revitalization of the region's economy. The organizations' professional policy staff continually searches for new ideas and new legislative options to help the nation's older, northern states overcome their handicaps--such as high energy costs and a deteriorating infrastructure, and prudently develop their many assets--including a highly skilled work force, top quality educational institutions, and abundant natural resources.

CONTENTS

Preface iv
Summary S-1
Introduction I
Economic Outlook III
Budget Overview VII

Section One: Community and Economic Development 1.1

A. Community Development Block Grants
B. Urban Development Action Grants
C. Economic Development Administration
D. Small Business Administration
E. General Revenue Sharing
F. Assisted Housing
G. Development Incentives in the Tax Code

Section Two: Human Resources 2.1

A. Employment and Training
B. Unemployment Insurance
C. Education
D. Family Assistance

Section Three: Natural and Physical Resources 3.1

A. Water Supply and Treatment
B. Environmental Protection
C. Agriculture
D. Rural Development
E. Transportation

Section Four: Energy 4.1

A. Energy Conservation
B. Low-Income Home Energy Assistance Program
C. Energy Supply Research and Development
D. Energy Information Administration
E. Electricity

Section Five: Defense 5.1

Section Six: Economic Competitiveness 6.1

A. Research and Development
B. Trade

PREFACE

Our three regional organizations are pleased to provide *The Budget and the Region*. We believe that over the next 12 months this guide will be an important resource for those who monitor and seek to shape federal policy and its impact on the Northeast and Midwest.

The book reviews the president's budget proposal and its plans for programs that have played an important role in the region's economic growth. The many programs covered fall into the general categories of community and economic development, human resources, natural and physical resources, energy, defense, and economic competitiveness.

In addition, the book provides a new overview of the state of the region's economy. Though the Northeast and Midwest continue to undergo a long-term economic adjustment, we are pleased to report considerable new job creation and renewed optimism about the region's economic prospects.

The goal of our organizations continues to be the forging of partnerships at the federal, state, and local levels to promote the region's economic health. The Gramm-Rudman-Hollings law and new tax legislation are changing the federal landscape in ways that will affect that regional effort significantly. The analyses presented in *The Budget and the Region* are designed to help the region's leaders respond to these changes and choose among policy alternatives.

We welcome the opportunity to work further with all friends of the region.

SUMMARY

The president's fiscal 1988 budget request reflects many of the same priorities as in previous years, proposing massive cuts in domestic programs and increases in military spending. Although a major goal of the request is to meet the $108 billion deficit ceiling mandated by the Gramm-Rudman-Hollings deficit reduction law, the president is proposing no tax increases. Some additional revenues would be generated by selling various federal properties, reducing or eliminating subsidies in numerous loan programs, and increasing or initiating user fees for some government facilities and services.

The budget also assumes continued economic growth and low inflation, resulting in lower rates of unemployment and real interest. GNP growth is projected at 3.2 percent in calendar year 1987 and 3.7 percent in 1988, compared to only 2.7 percent in 1986. Based on these assumptions, receipts are estimated to grow from $842.4 billion in fiscal 1987 to $916.6 billion in fiscal 1988. Lower interest rates would result in an increase of only $2 billion for net interest payments on the national debt -- far smaller than in previous years.

The accuracy of these projections has been questioned by many economists and observers. Most recent evidence points to a slowdown in GNP growth, rather than the slight acceleration assumed by the administration, and some increase in inflation. In addition, trade deficits remain at record levels, the agricultural economy is profoundly weak, and numerous states -- particularly in the Midwest and the energy belt -- are plagued by unemployment rates well above the national average.

Increased economic competitiveness is one of the major themes of the president's proposal, but the document identifies only a limited set of initiatives and funding increases -- focusing mainly on basic research and technology development -- to achieve this goal. Otherwise, greater competitiveness would be achieved mainly through funding of the Strategic Defense Initiative (Star Wars). Federal funding of education and training programs generally would be subject to major cuts and rescissions.

In sum, the president's fiscal 1988 budget request, like its predecessors, targets for reduction or elimination many federal programs that have been essential to the economic revitalization of the Northeast and Midwest; would increase military spending, most of which flows to other parts of the country; and would do relatively little to improve the competitiveness of the industries and the work force that are at the heart of the Northeast-Midwest economy.

Following are highlights of the budget proposal:

- **COMMUNITY DEVELOPMENT** -- The administration again is proposing to reduce or eliminate HUD programs that provide support for local community and economic development projects.

  Community Development Block Grants (CDBG). The budget request calls for $2.51 billion in new CDBG budget authority for fiscal 1988. This amount would be supplemented by the transfer of $115 million in unused funds from the Section 312 rehabilitation loan fund, which would be terminated. Thus, total CDBG budget authority for fiscal 1988 would be $2.625 billion, the lowest funding level for the program since fiscal 1976. In addition, the administration plans to seek a $375.2 million rescission from the $3 billion appropriated for CDBG in fiscal 1987, a 12.5 percent reduction.

To compensate for this reduction, HUD will seek legislation to target CDBG entitlement monies to recipients with the greatest need. Communities "with the resources to meet their own needs amply without federal assistance" presumably would be dropped from the entitlement program. Although no specifics are provided, such a change could include formula or threshhold criteria modifications.

Section 108 Loan Guarantees. The administration again is proposing to terminate the Section 108 program, which entitlement cities use to leverage CDBG funds for major downtown and inner-city redevelopment efforts. Cities in the Northeast-Midwest region have used nearly two-thirds of the $825 million in guarantees approved since the inception of the program.

Urban Development Action Grants (UDAG). Although acknowledging that the UDAG program "has had substantial success" as an economic development stimulus in numerous communities, the administration again proposes to terminate it in fiscal 1988. In addition, the president is seeking a rescission of $205 million in UDAG funds (out of a fiscal 1987 appropriation of $225 million) not yet awarded. This would include cancellation of the scheduled January awards cycle. HUD officials have indicated that applications for that round have been processed, and preliminary funding decisions made, but that no awards will be made until after Congress acts on the rescission request.

If implemented, the UDAG provisions would have a significant impact on economic revitalization efforts in the nation's most distressed large and small cities. Elimination of the program would be felt keenly in the region. Since 1978, the program has generated nearly $17.2 billion in private investment and is credited with creating or preserving over 440,000 jobs in the Northeast and Midwest. More than $500 million in UDAG assistance has gone to the region's small cities.

- **ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)** -- The president once more proposes to eliminate EDA. The administration maintains that its programs are obsolete and provide federal funds only to favored local areas "to the detriment of the overall national economy." No new EDA program spending is requested for fiscal 1988, and all unobligated 1987 appropriations, an estimated $124 million, would be rescinded.

  Because of strong congressional suppport for EDA's assistance to local communities grappling with a changing economy, the agency has continued to operate with a small program budget. Congress appropriated $180.4 million for EDA for fiscal 1987; this included $122 million for public works, $24 million for state and local planning, and $26 million for economic adjustment assistance.

- **ASSISTED HOUSING** -- The administration requests $3.92 billion in budget authority for assisted housing in fiscal 1988, 46 percent less than the $7.2 billion made available by Congress for fiscal 1987. HUD continues to seek deep cuts in "bricks and mortar" housing construction and modernization programs. The budget proposes to rescind $463.4 million in fiscal 1987 authority, and "carry over" $880 million in fiscal 1987 public housing modernization funds and $267 million in Section 202 elderly/handicapped authority to fiscal 1988.

The administration proposes the addition of 100,000 units of assisted housing in fiscal 1988; 84,500 would be in the form of housing vouchers. The only new housing construction proposed is 3,000 subsidized units for American Indians and the elderly and handicapped.

The president again is asking that the rental housing development grant (HoDAG) program be terminated in fiscal 1988, and that the entire $99.6 million in fiscal 1987 appropriations be rescinded. HoDAG is designed to leverage private investment and spur new production of rental housing in areas experiencing severe shortages. In prior years, the Northeast-Midwest region received nearly two-thirds of the competitive HoDAG awards. The rental rehabilitation program, which provides grants to repair existing housing stock, faces a rescission of $125 million of the $200 million appropriated for fiscal 1987. The administration is seeking $75 million for grants in fiscal 1988.

The administration proposes to cut available public housing modernization funds significantly. HUD would shift $436.9 million of enacted modernization funds to fiscal 1988, reducing the fiscal 1987 available balance to $1 billion. The administration proposes $563 million in new funds for fiscal 1988, which would place the modernization program level at $1 billion for that year as well. For 1989 and beyond, the budget assumes a program level of $735 million. Adequate modernization funding is especially critical to the region's housing authorities, which oversee much of the nation's oldest and least energy efficient stock.

The administration proposes $1.462 billion for public housing operating subsidies for fiscal 1988, including a shift of $85.3 million of already appropriated fiscal 1987 funds. The budget also seeks to shift 2,000 units of the enacted 12,000 units of Section 202 housing for the elderly and handicapped from fiscal 1987 to 1988.

The administration claims that the above shifts will not be deferrals under the Impoundment Control Act. Rather, supplemental language will be proposed to move the funds from 1987 to 1988.

- **GENERAL REVENUE SHARING (GRS)** -- Authority for the GRS program expired on September 30, 1986, and the administration's fiscal 1988 budget does not seek any new authorization or funding for it.

- **SMALL BUSINESS ADMINISTRATION (SBA)** -- The administration is proposing to retain SBA as an independent agency, at an overall program level of $3.134 billion in fiscal 1988. This marks a reversal from past budget proposals, which requested the agency's termination. SBA's technical assistance programs also will be continued.

All requested assistance would be in the form of loan guarantees, except for $20 million for MESBICS. Several small loan and guarantee programs -- handicapped, economic opportunity, and energy -- are propose for elimination.

The administration also proposes to begin a three-year phase out of the Small Business Development Center (SBDC) program in fiscal 1988, and reorganize federal minority assistance programs by transferring the Department of Commerce's Minority Business Development Agency (MBDA) to SBA.

The budget anticipates the sale of $2.24 billion in loan portfolio assets in fiscal 1988, yielding $643 million in offsetting receipts.

- **ENERGY** -- The administration's fiscal 1988 budget request for energy repeats many of the themes in last year's submission, including an overall increase for defense-related activities and major cuts in energy conservation and research activities. The request includes:

  - a rescission of $44.5 million in fiscal 1987 for fossil energy research and development and a reduction of 32.7 percent, from $251 million to $169 million, of funding in fiscal 1988.

  - a rescission of $18 million in fiscal 1987 for conservation R & D and a reduction of 50.5 percent, from $161.8 million to $80.1 million, in fiscal 1988. The administration also is asking for a $65.9 million rescission for fiscal 1987 conservation grants, a change that would limit current year spending to $213.5 million, of which $134 million non-federal funds would be used from escrow accounts established for petroleum product overcharge cases. The administration is requesting only $6 million for program direction for fiscal 1988, arguing that appropriated funds no longer are necessary because of the large amount of oil overcharge funds available to states. Fulfilling this request, however, would violate a court ruling that the funds can only be used to supplement, not supplant, existing funds.

  - a reduction in the Strategic Petroleum Reserve fill rate from 75,000 to 35,000 barrels per day.

The Cooperative Research and Development Venture Program, announced last year, will proceed in fiscal 1988 with proposed funding of $17 million -- $7 million for fossil energy and $5 million each for solar and conservation. Although the budget assumes $17 million, the funding proposal will be forwarded as a separate budget amendment after the Department of Energy finishes consulting with interested energy groups. The program is designed to leverage federal dollars by making DOE a minor partner in various technology ventures where the private sector is willing to invest R&D funds.

The Northeast-Midwest region relies heavily on energy conservation grants and research and development. In fiscal 1986, 63 percent of weatherization assistance grants went to states in the region, weatherizing over 110,000 low-income homes. Furthermore, the region has the highest energy prices and produces less than 30 percent of the energy it consumes; programs that promote energy conservation investments help stem the outflow of capital spent in energy purchases. In addition, conservation R & D has the potential of improving the competitiveness and trade posture of the region's industries, many of which employ older, less energy efficient technologies.

Other energy initiatives in the budget request include repeal of the Windfall Profits Tax; repeal of exemptions from gasoline and other highway excise taxes (gasohol and some other alcohol fuels are partially exempted from federal excise taxes); increasing the excise tax on coal production; sale of the five power marketing administrations and their repayment of federally financed investment on a fixed, straight-line amortization schedule; and termination of the Rural Electrification Administration's subsidized direct loan program, the REA guaranteed Federal Financing Bank (FFB) loans, and the Rural Telephone Bank's subsidized lending to electric cooperatives and telephone companies.

- **LOW-INCOME HOME ENERGY ASSISTANCE (LIHEAP)** -- The president is proposing a 32.1 percent reduction in the Low-Income Home Energy Assistance Program, from $1.822 billion in fiscal 1987 to $1.237 billion in fiscal 1988, based on the assumption that states would use oil overcharge funds to make up the funding shortfall. The Northeast-Midwest region received over 62 percent of LIHEAP funds in fiscal 1986.

- **DEFENSE** -- The president's request calls for $312.0 billion in budget authority and $297.6 billion in outlays for military expenditures in fiscal 1988. This proposed increase of $19.0 billion, or 6.5 percent, in budget authority, and $15.3 billion, or 5.4 percent, in outlays over fiscal 1987 reflects the administration's determination to renew real growth in defense spending after two years in which Congress cut the president's requests for new military budget authority by a total of $65 billion. If granted, the fiscal 1988 request would result in real growth in military spending of about 3 percent, after accounting for inflation. A similar rate of real growth is projected for fiscal 1998. The administration also is proposing a fiscal 1987 supplemental appropriation for DoD of $2.8 billion.

  Military personnel would receive only a small share of the requested increase. Budget authority for personnel costs would rise from $74.2 billion to $78.8 billion, an increase of 6.2 percent, which includes a 4 percent pay raise for military, and a 2 percent pay raise for civilian personnel. The largest increase would go for weapons research, development, test, and evaluation, which includes Star Wars. Funding for these activities would rise from $36.7 billion to $43.7 billion -- more than 19 percent.

- **WATER RESOURCES** -- Under the president's request, the total budget for the Army Corps of Engineers civil works program would increase from $3.1 billion to $3.2 billion in fiscal 1988. Outlays for cotruction actually would decline slightly from $1.16 billion in fiscal 1987 to $1.15 billion in 1988, before rising to $1.195 billion in fiscal 1989.

  Outlays for construction had already jumped from $908 million in fiscal 1986 to $1.15 billion in fiscal 1987. Last October, Congress increased funding in anticipation of the enactment of H.R. 6, which provides $16.3 billion in new spending for Corps projects. The 1988 budget thus preserves the higher level of activity that actually began in fiscal 1987.

  Historically, the Northeast-Midwest region has received less than 20 percent of Corps spending. Last year's Corps reauthorization would increase the region's share to 27 percent of the total.

  Finally, the construction budget for the Bureau of Reclamation, which is limited by law to operation in 17 Western states, would increase from $678 million in fiscal 1987 to $695 and $743 million in fiscal years 1988 and 1989. Operations and maintenance outlays for BuRec also would climb, from

$142 million in fiscal 1987 to $154 million in fiscal 1988 and $170 million in fiscal 1989.

- **NATURAL RESOURCES AND ENVIRONMENT** -- The administration's proposed budget for environmental protection reflects the same priorities that have been expressed in every budget proposal since 1981. The only significant change from last year's request is that this year the EPA sewage treatment grants would be phased out more slowly, receiving $12 billion in outlays through 1993 instead of the $6 billion phaseout proposed in fiscal 1987. Outlays would decline from $2.6 billion in fiscal 1987 to $2.32 and $2.15 billion in fiscal 1988 and 1989, and would decline much more sharply thereafter.

Congress last year voted unanimously to reauthorize the Clean Water Act and provide $18 billion for the sewage treatment grant program before terminating it, but the president pocket vetoed the bill after adjournment. The proposed budget would split the difference with Congress. However, on January 8, the House and Senate are expected to challenge the administration by sending the same Clean Water bill that was vetoed last fall back to the president's desk for signature. The Northeast-Midwest region receives approximately 55 percent of the grants allocated for sewage treatment.

The administration is requesting outlays of $900 million in fiscal 1988 and $1.175 billion in fiscal 1989 for the Superfund program to clean up abandoned hazardous waste sites, of which 60 percent are located in the industrial states of the Northeast and Midwest. The budget also asks $17.5 million in fiscal 1988 and $22.5 million in fiscal 1989 for cleanup of leaking underground storage tanks. The administration's budget makes clear that no general revenues will be requested for expenditures on Superfund cleanups, which instead would be financed entirely through the special industry taxes approved by Congress. Last year, Congress authorized a five-year, $8.5 billion spending level for Superfund, with $1.25 billion to come from general revenues and the balance to be raised through a combination of chemical feedstock, petroleum, and corporate excise taxes. An additional $500 million was provided for a leaking underground storage tank trust fund, to be financed entirely through a small tax on gasoline.

The administration's budget request appears to reflect a somewhat slower pace of spending for Superfund than that authorized by Congress, and a desire not to make a significant investment in leaking storage tank cleanup. The refusal to spend general revenues on Superfund would reduce the deficit slightly. The budget request may also be driven by the administration's belief that the Superfund program cannot be expanded at the rate desired by Congress, and that cleanup of leaking tanks should be a state responsibility.

Acid Rain. The administration has made the development of clean coal technologies the centerpiece of its acid rain control strategy. In a summit meeting last year with Canadian Prime Minister Brian Mulroney, President Reagan agreed to the recommendations of the Lewis-Davis report, which called for a $5 billion program to demonstrate technologies that use coal cleanly. Half of this funding would be federal and half would come from states and the private sector. A demonstration program of the size recommended by the Lewis-Davis report could be designed so that it not only would accelerate the commercialization of clean coal technologies, but also reduce atmospheric emissions by targeting currently operating facilities as test sites.

As part of this effort, the administration has requested that $350 million be appropriated over the next four years for DOE's Clean Coal Technology program, in addition to the $400 million that had been appropriated for it previously. Also, the administration has proposed that, from 1986 to 1992, $1 billion be spent by DOE's Fossil Energy Research and Development program, which performs basic research on coal technologies.

The administration contends that federal and nonfederal sources in the U.S. currently are planning to spend nearly $7 billion on clean coal technologies in the next five years. However, few of these expenditures would satisfy the Lewis-Davis criteria of demonstration projects that could reduce emissions from currently operating facilities. The Fossil Energy program, for instance, conducts basic R&D, not demonstration projects. Only the $750 million Clean Coal Technology program demonstrates technologies. Yet even many of the projects supported by the first $400 million under this program were technologies for new sources of emissions, again inapplicable to present facilities. The Canadians have contened that only $1.7 billion of the $7 billion in projected spending on clean coal technologies would fit the Lewis-Davis criteria.

Forest Service. The administration has proposed reducing the main, nontrust programs of the U.S. Forest Service by 15 percent, from almost $1.7 billion to $1.4 billion. Most of the Forest Service budget goes directly or indirectly to the national forests. The budget for National Forest System, which administers the national forests, would be reduced from almost $1.2 billion to just over $1.0 billion. The Construction program, which includes road construction in the national forests, also would be reduced, from $261.7 million to $221.5 million.

Because most of the forest resources in the Northeast-Midwest region are nonfederally owned, however, Forest Service programs that assist states and private landowners are of the greatest regional benefit. Of these, the Research program would be funded at $122.2 million for fiscal 1988, compared to $124.4 million in fiscal 1987; the State and Private Forestry program would be cut by 40 percent, from $58.9 million to $35.4 million; and the Land Acquisition program would be reduced by 93 percent, from $52.2 million to $3.9 million.

- **TRANSPORTATION** -- The president's budget request seeks to reduce support for local mass transporation needs significantly, and would eliminate the federal role in the interstate passenger rail business. Budget authority for the Urban Mass Transportation Administration would decline from about $3 billion in fiscal 1987 to $1.4 billion in fiscal 1988. The discretionary grants program would be eliminated; funds from the dedicated penny tax on gasoline would be allocated by formula to states and local agencies, which would be required to match them on a 50 percent basis, up from the current 20 percent.

The president proposes to sell all or part of Amtrak, and his budget assumes no further spending on the system; Amtrak will receive about $600 million in federal funds in fiscal 1987. The budget projects $1 billion in income from the sale, comparing it to the sale of Conrail now being conducted. However, Amtrak, whose activities are concentrated heavily in the Northeast Corridor, has been operating at a loss, whereas Conrail has been quite profitable.

The budget requests an obligation ceiling of $12.8 billion for the Federal Aid to Highways program, a cut of $700 million from the Congressional Budget Office baseline for fiscal 1987. In addition, in future years spending would be limited to the average annual amount of user fee receipts deposited in the highway trust fund, rather than the higher levels Congress traditionally has authorized.

- **AGRICULTURE** -- The president's proposed budget calls for a reduction of about $4.3 billion in outlays for the U.S. Department of Agriculture in fiscal 1988. This represents a cut of 7.8 percent from the administration's current estimate for fiscal 1987, which assumes enactment of proposed rescissions in some popular farm programs. The administration would make major cuts in such programs as the Cooperative State Research Service, the Extension Service, child nutrition and feeding programs, and rural housing.

  Existing housing and community development programs of the Farmers Home Administration (FmHA) are proposed for termination in 1988, with funding provided for a new rural housing voucher program for 20,000 units annually. Rural electrification and telephone loan programs would be shifted to the private sector beginning in 1988. While FmHA farm operating loans would remain at $3.5 billion, a greater share ($2.5 billion) would be shifted to guaranteed loans. Funding of $1.4 billion would be provided to farmers for placing highly erodible land in the Conservation Reserve, which eventually would contain 40-45 million acres. In addition, more than $698 million in user fees and trust funds are called for in the fiscal 1988 budget for such traditionally government-funded services as grain and meat inspection and marketing programs.

  The budget proposal also calls for major legislative changes in the commodity price support programs financed through the Commodity Credit Corporation (CCC). Price support programs cost a record $25.8 billion in 1986; fiscal 1988 net outlays for the CCC are projected to be $21.3 billion, largely because of lower price support lending and feed grains and an assumption that advanced deficiency payments for 1988 crops will not be made. Proposed legislation, which is yet to be drafted, will include the following changes in price support programs: a 10 percent annual reduction for the next three years in "target prices," a limit of $50,000 in payments to an individual farm operator (the existing limitation is $250,000), and a "decoupling" of production from subsidy payments. Such proposed changes, if enacted, would not result in any substantial savings until after fiscal 1988. The administration also will propose changes in the sugar program as part of its legislative package to greatly reduce federal farm program costs. The Food for Peace (P.L. 480) and export credit programs, funded through the CCC, also would be cut somewhat under the proposed budget.

- **EMPLOYMENT AND TRAINING** -- The president's budget for fiscal 1988 proposes to spend $4.9 billion for employment and training, an increase of $300 million over current spending. The budget calls for level funding at $1.8 billion for the core section of the Job Training Partnership Act -- block grants to states for training programs for the economically disadvantaged. The Job Corps, a program the administration previously has sought to reduce or eliminate, also would be level funded, at $652 million.

Major changes are proposed for other Department of Labor programs, sounding familiar themes from past years. The budget includes a new $980 million Worker Adjustment Assistance Program, partially funded from rescissions, that would merge the JTPA Title III Dislocated Workers Program (currently funded at $200 million) and the Trade Adjustment Assistance Program (currently funded at $144 million). Funds would be distributed at the Secretary's discretion rather than to states by formula as in the present Title III program. Last year the administration asked for a major supplemental appropriation for Title III for distribution at the Secretary's discretion, but Congress rejected this approach.

Also proposed is a new AFDC Youth program that would merge the Summer Youth Employment and Training Program and the Work Incentive Program (WIN) into a new education, training, and support services program targeted to youth in families receiving Aid to Families with Dependent Children. The new program would be funded at $800 million, a small increase over the combined level of the existing programs. Last year the administration sought to eliminate WIN and to change the allocation formula for the Summer Youth Program to target funds to areas with large concentrations of needy youth. Congress rejected both ideas.

The budget proposes a rescission of $332 million from fiscal 1987 JTPA funds to help finance the new programs that would replace Title III and the Summer Youth Program. Another $90 million would be rescinded from Wagner-Peyser (Employment Service) allotments to states, based on the assumption that many employment-related services will be available under the new Worker Adjustment Assistance Program.

- **EDUCATION** -- The president's budget for fiscal 1988 proposes $4.1 billion for Chapter I of the Education Consolidation and Improvement Act, the major federal program of compensatory education for disadvantaged youngsters. This figure represents a $200 million increase over current funding. The program is due for reauthorization in the 100th Congress, and the administration promises to send a legislative proposal for consideration. The budget also requests $130 million for the Adult Education Act, a 20 percent increase for adult literacy programs.

Other education programs do not fare so well in the president's budget. The administration proposes to eliminate all federal support for vocational education on the basis that the program provides only scant benefits and is supported adequately by the states. In higher education, the budget calls for reductions in the Pell Grant program from the current level of $3.8 billion to $2.7 billion in fiscal 1988 and $2.0 billion in fiscal 1989 and beyond. The budget states that these reductions will be accomplished by further targeting the program to the neediest students, reforming what it characterizes as "liberalizations" contained in the 1986 reauthorization of the Higher Education Act. Funding for Supplemental Grants and Work-Study programs would be eliminated.

In the area of loans for higher education, the budget proposes to reduce funds for Guaranteed Student Loan interest subsidies from the $3 billion enacted for fiscal 1987 to $1.2 billion in fiscal 1988. However, the administration also proposes to expand the Income-Contingent Loan program, newly enacted in 1986, from its initial level of $5 million to $600 million in fiscal 1988. Perkins Loans, formerly known as Direct Student Loans, would continue to be available, but this program would receive no new federal capital contributions as the federal investment shifts to the ICL program.

- **UNEMPLOYMENT INSURANCE** -- The president's budget estimates total outlays for unemployment compensation at $16.3 billion for fiscal 1988, down from $16.6 billion in fiscal 1987. This estimate is based on a projected unemployment rate of 6.4 percent in fiscal 1988 compared with 6.8 percent this year. Unemployment compensation is expected to serve as the income maintenance component for the proposed Worker Adjustment Assistance Program; unlike the Trade Adjustment Assistance Program it replaces, the new program would contain no special unemployment benefits.

  The president's budget also states that the administration will propose legislation to transfer resources and authority for administration of the UI program to the states. Last year's budget contained a similar statement. It has not been decided whether the promised legislation will address decentralization of the Employment Service as well.

- **COMPETITIVENESS** -- The president's budget request would focus efforts to improve the nation's economic competitiveness on investments in science and technology. The budget would increase funding for basic research sponsored by the National Science Foundation by 16.6 percent. NSF's total research budget would increase from $1.406 billion to $1.635 billion. Funding for research conducted by the National Aeronautics and Space Administration, including a new civil space technology initiative, would rise by 7.5 percent. In addition, the budget projects an increase of 13.2 percent for Department of Energy general science programs. The request also argues that the Star Wars initiative will strengthen the nation's "leading edge" technolgies in areas such as strategic computing and very high speed integrated circuits.

INTRODUCTION

The following analysis of the president's budget for fiscal 1988, prepared by the staffs of the Northeast-Midwest Congressional Coalition, the Northeast-Midwest Senate Coalition, and the Northeast-Midwest Institute, focuses on federal programs that have a significant impact on the region's states and their more than 100 million residents. It begins with a section entitled "Economic Outlook," designed to establish a context in which the budget may be viewed. That is followed by a "Budget Overview," which outlines the major features of the federal budget. Accompanying tables provide greater detail on these sections. The analysis of the budget proposal itself is organized into five major sections, each encompassing a cluster of related areas of federal spending. Each section begins with a summary, followed by separate subsections on federal programs or activities. The sections and subsections are as follows:

- **Community and Economic Development**
    - -- Community Development Block Grants
    - -- Urban Development Action Grants
    - -- Economic Development Administration
    - -- Small Business Administration
    - -- General Revenue Sharing
    - -- Assisted Housing
    - -- Development Incentives in the Tax Code
- **Human Resources**
    - -- Employment and Training
    - -- Unemployment Insurance
    - -- Education
    - -- Family Assistance
- **Natural and Physical Resources**
    - -- Water Supply and Treatment
    - -- Environmental Protection
    - -- Agriculture
    - -- Rural Development
    - -- Transportation
- **Energy**
    - -- Energy Conservation
    - -- Low-Income Home Energy Assistance Program
    - -- Energy Supply Research and Development
    - -- Energy Information Administration
    - -- Electricity

- **Defense**

- **Economic Competitiveness**

  - Research and Development
  - Trade

A budget overview for each section gives the actual budget authority and outlays for fiscal 1981 and 1986 for the programs under discussion and compares them with funding levels for fiscal 1987 and 1988 proposed by President Reagan.

Tables detailing the regional and state-by-state distribution of program funds for the most recent year available, along with tables providing other relevant statistical information, are grouped at the end of each section.

ECONOMIC OUTLOOK

President Reagan's budget proposal for fiscal 1988 claims to meet the $108 billion deficit target set out in the Gramm-Rudman-Hollings law, with the assumption that the nation's economy will grow by 3.2 percent in calendar year 1987, followed by a 3.7 percent expansion in 1988. Obviously, the economy and the federal budget are interrelated. Federal receipts and outlays depend directly on the level of economic activity, interest rates, unemployment, and inflation. Similarly, both outlays and the tax structure influence the state of the economy.

The economic expansion that began in December 1982 is now in its fifth year. During 1986, the economy grew by 2.5 percent, substantially below the rate in the first two years of the recovery. Inflation, measured by the Consumer Price Index at 1.6 percent, declined in 1986 largely due to the steep fall in oil prices at the beginning of the year. Interest rates dropped as a result of the easing of inflation, the sluggish growth of the economy, and the expectation of lower federal deficits. Unemployment also declined slightly, but still averaged 7.0 percent.

The administration's 1988 proposal suggests a more promising outlook than most private economists are predicting. The consensus among prominent national forecasters is for a growth rate closer to 2.5 percent rather than 3.2 percent. The administration's budget projections also are questioned on Capitol Hill. The Congressional Budget Office, for example, is projecting a deficit of nearly $170 billion in 1988 if current spending policies are kept intact. This estimate, which Congress is expected to accept, would require a deficit reduction of $62 billion, considerably more than the $42.2 billion in cuts contained in the president's budget, to reach the target set by the Gramm-Rudman-Hollings law. The president also is projecting virtually no negative revenue effects in 1988 from tax reform, although congressional economists have estimated the new tax law will result in the loss of $17 billion in revenue next year.

While every economic forecast is subject to question, a number of factors combine to render projections made at this time particularly uncertain. Some fundamental ambiguities in current forecasts include:

- the impact on the economy of the shift in fiscal policy toward greater restraint, as required by the Gramm-Rudman-Hollings Balanced Budget Act;

- the economic impact of the Tax Reform Act of 1986, which changes the composition of federal receipts and alters the incentives for many economic activities;

- the direction of oil prices;

- o the impact of the dollar's decline on exports and imports; and
- o the impact of relatively high household and business debt, which could cause a sudden curtailment of spending.

Gross National Product. The administration's forecast embodies several assumptions for consumption, investment, government spending, and net exports, the four main components of GNP. First, growth of real consumer spending is expected to slow from the 4.0 percent registered in 1986 to 2.3 percent in 1987. Real investment will increase because of gains in nonresidential fixed investment and inventory investment. Continued modest growth of real spending by state and local governments may offset the anticipated reduction in real federal purchases of goods and services. Finally, higher prices for goods imported into the U.S. and the relatively lower prices of U.S. goods in foreign markets should improve U.S. net exports.

Other forecasters differ significantly in their projections for the next two years, but all estimate lower growth than the administration. If growth is slower than the president predicts, the result would be lower federal tax revenues and a larger budget deficit.

Projected Increase in Real Gross National Product

(percent change, calender years)

	1987	1988
President's 1988 Budget	3.2	3.7
Congressional Budget Office	3.0	2.9
Chase Econometrics	2.3	2.6
Wharton Econometrics	3.5	3.2
Data Resources, Inc.	2.5	3.4

Interest Rates and Inflation. In early 1986, interest rates continued the rapid decline begun six quarters earlier. The drop was most noticeable among long-term maturity instruments. Many forecasters, including CBO, are expecting a slight pickup in nominal short-term interest rates over the course of 1987. Low interest rates are critical to the economic well-being of the Northeast and Midwest. The industrialized states of the region are particularly vulnerable to high rates because their economies depend so much on industrial borrowing to invest in modern facilities, agricultural borrowing to keep the region's farms operating, and nationwide consumer borrowing to pay for "big ticket" manufactured products such as cars, houses, and appliances.

The rally in financial markets, which began in mid-1984, continued to boom through the first half of 1986 before slowing at mid-year. The expansion in the prices of financial assets -- both stocks and bonds -- had been aided by reduced credit demands, lower inflation, an accommodative monetary policy, and expectations of lower federal deficits in the future.

Testifying before the Joint Economic Committee early in February, Federal Reserve Board Chairman Paul A. Volcker said the dollar had reached the point at which further decline "turns from benign to danger" as changes get passed through to prices of imported goods. Many observers believe that the traditional indicators for monetary policy have become less reliable. Inadequate money and credit creation could jeopardize economic expansion in the short run; alternatively, excessive monetary growth could stimulate inflation and seriously damage economic performance in the long run.

The administration agrees with most private economists that inflation will be higher in 1988 than last year's low figure. The president's budget proposal projects an increase in the Consumer Price Index of 3.8 percent in 1987, declining to 3.6 percent in 1988. The inflation picture still is dominated by recent changes in the prices of oil and food. In the first half of 1986, the precipitous fall in oil prices, combined with low meat prices caused in part by government incentives to slaughter dairy cows, led to several months of decline in the CPI. CBO's forecast calls for a fairly substantial rise in the reported rate of inflation, from 3.5 percent in 1986 to 4.4 percent in 1987.

Projected Rise in the Consumer Price Index

(percent change, calender years)

	1987	1988
President's 1988 Budget	3.8	3.6
Congressional Budget Office	4.4	4.4
Chase Econometrics	3.4	4.2
Wharton Econometrics	4.0	5.1
Data Resources, Inc.	3.6	4.6

Unemployment. The unemployment rate for civilian workers has exhibited a moderate downward trend since late 1985. In the fourth quarter of 1986, the rate was 6.8 percent, slightly below that of the last quarter of 1985. In comparison, employment grew by about 2.3 percent between the fourth quarters of 1985 and 1986. The service sector accounted for nearly 85 percent of all new non-farm jobs since November 1982, and for all the increase in employment since late 1985.

Labor productivity -- output per hour -- of U.S. businesses rose a mere 0.7 percent in 1986. Economists warn that such small productivity increases, or any outright declines, could lead to an increase in unemployment. If economic growth does not accelerate, employers could begin laying off workers to cut costs. The Reagan administration has predicted a 1.9 percent rise in non-farm productivity between the fourth quarters of 1986 and 1987.

For 1987, the administration forecasts continued strong growth in employment; the total unemployment rate is predicted to be 6.5 percent in the fourth quarter. CBO anticipates that the trade sector will be the major contributor to employment growth.

Projected Unemployment Rate

(annual average percentage)

	1987	1988
President's 1988 Budget	6.5	6.2
Congressional Budget Office	6.6	6.5
Chase Econometrics	7.0	6.9
Wharton Econometrics	6.6	6.2
Data Resources, Inc.	6.9	6.4

BUDGET OVERVIEW

The president's fiscal 1988 budget proposal is designed to meet the $108 billion deficit target mandated by the Gramm-Rudman-Hollings law -- a reduction of $65 billion in 1988, following a reduction of $48 billion in fiscal 1987. In meeting this target, the president proposed a 6.5 percent increase in defense spending over the Pentagon's fiscal 1987 budget authority, significant cuts in domestic spending, and no new major revenue-raising measures.

Under the president's plan, total budget authority in fiscal 1988 would rise by 4.4 percent to $1,142 billion, outlays would increase by 0.9 percent to $1,024 billion, and revenues would go up by 8.8 percent to $917 billion.

Budget Summary[1]
(in billions of dollars)

	1981	1986	1987	1988
Budget Authority	749.1	1072.8	1093.9	1142.2
Budget Outlays	678.2	989.8	1015.6	1024.3
Budget Receipts	599.3	769.1	842.4	916.6
Deficit	-78.9	-220.7	-173.2	-107.8
Gramm-Rudman-Hollings Deficit Targets	--	-171.9	-144.0	-108.0
Difference	--	48.8	29.2	-0.2

[1] Figures for fiscal 1981 and 1986 are actual; figures for 1987 and 1988 are estimates.

As the tables below show, President Reagan's seventh budget submission to Congress embodies his philosophy of government: it would expand the military and shrink spending for domestic programs. In fiscal 1988, more than 29 cents of each budget dollar would be earmarked for defense, with 28 cents going to Social Security and Medicare, 14 cents for interest on the debt, and 29 cents paying for all other non-defense discretionary programs and other entitlements (including undistributed offsetting receipts and allowances). By comparison, in fiscal 1981, 23 cents went for defense spending, with 26 cents for Social Security and Medicare -- and 40 cents for non-defense discretionary spending and other entitlements.

Budget Outlays by Major Program Area[1]
(in billions of dollars)

	1981	1986	1987	1988
National Defense	157.5	273.4	282.2	297.6
Social Security and Medicare	178.7	269.0	279.5	292.4
Non-Defense Discretionary and Other Entitlements	335.3	344.4	353.5	341.4
Undistributed Offsetting Receipts	-28.0	-33.0	-37.1	-45.4
Net Interest	68.7	136.0	137.5	139.0
Allowances	0	0	0	-.8
Total	678.2	989.8	1015.6	1024.3

[1] Figures for fiscal 1981 and 1986 are actual; figures for 1987 and 1988 are estimates.

Each year, the administration prepares "current services" baseline estimates of the level of spending, revenues, and deficits that would occur if existing spending and tax laws simply were extrapolated into the future. When the president discusses spending cuts or tax increases, he is comparing his fiscal 1988 budget proposals with the fiscal 1988 "current services" baseline.

This year's budget proposal would reduce the current services deficit projected by the president for fiscal 1988 by $42.3 billion, with $36.2 billion coming from outlay reductions and $6.1 billion being made up by new revenues. Of the $36.2 billion in outlay reductions, $16 billion would be achieved by expanded user fees, loan asset sales, privatization initiatives, and other revenue changes. The remaining $20 billion results from proposals for program reform and reductions.

The administration has used different methodologies to develop the domestic and defense "current services" baselines. For non-defense discretionary appropriated programs, the "current services" baseline reflects costs of continuing programs authorized or implied by enacted 1987 appropriations or substantive legislation adjusted by the anticipated rate of inflation. For entitlement programs, the estimates reflect operations of current law, caseload estimates, economic conditions, and other technical considerations. For defense programs, the administration's current services estimate is based on a 3 percent increase in budget authority over fiscal 1987 levels, after adjustments for inflation. This means that although the president's defense request for fiscal 1988 appears to be the same as the fiscal 1987 baseline, it reflects a real increase of roughly $10 billion. In addition, the current services fiscal 1987 baseline for defense also includes a proposed supplemental appropriation of $2.8 billion.

As provided under the Gramm-Rudman-Hollings law, operations of the Social Security trust funds were taken "off-budget" beginning in 1986. However, income and outlays of the fund are considered in calculating the federal deficit. With Social Security revenues currently exceeding payments, the inclusion of Social Security has the net effect of lowering the budget deficit.

Federal Credit Budget

The federal credit budget, included officially as part of the president's budget submission to Congress for the second year, establishes the statutory limits on federal direct loan obligations, primary loan guarantee commitments, and secondary loan guarantee commitments.

As the table on the next page shows, the president proposes to terminate, phase out, or reduce significantly several direct loan and loan guarantee programs as part of a major initiative to reduce the federal government's influence in national credit markets. As a result, the credit budget would decline by $35 billion, or 18 percent.

Budget Authority

The president has requested $1,142.2 billion in total budget authority for fiscal 1988, an increase of 4.4 percent over fiscal 1987. This increase is largely the result of requests for additional defense spending (6.5 percent increase), Social Security obligations (13.9 percent increase), and Medicare obligations (12.5 percent increase).

The president has requested deep cuts in budget authority in many non-defense discretionary programs. These cuts reflect the president's stated intent to sell, phase out, or eliminate numerous domestic programs, including Urban Development Action Grants, the Economic Development Administration, Amtrak, and federal energy conservation programs. Funding for Agriculture (Function 350) would decrease by 18.7 percent, for Community and Regional Development (Function 450) by 13.1 percent, for Transportation (Function 400) by 8.9 percent, for Energy (Function 270) by 3.8 percent, and for Education, Training, Employment, and Social Services (Function 500) by 4.0 percent.

Budget Outlays

Budget outlays -- the amount requested for expenditure in the current fiscal year -- often vary significantly from budget authority, which contains program funds for both present and subsequent years. Accordingly, outlays often reflect budget authority decisions made in previous years. A substantial decrease in budget authority, particularly for multi-year "slow-spending" programs such as mass transit, community development, and housing, will not be reflected fully in outlays for several years. Thus while the 1988 request asks an increase in authority of 4.4 percent from fiscal 1987, proposed outlays would rise by only 0.9 percent.

Requested outlays would total $1,024.3 billion, and most budget functions would receive major cuts, with only National Defense (5.5 percent), General Science/Space/Technology (20 percent), and Social Security (5.5 percent) scheduled for significant increases. Most other functions would see sizable cuts in outlays: Commerce and Housing Credit (Function 370) down by 73.1 percent, from $9.3 billion to $2.5 billion; Agriculture (Function 350) down by 15.4 percent, from $31.1 billion to $26.3 billion; and General Purpose Fiscal Assistance (Function 850), down by 21.1 percent, from $1.9 billion to $1.5 billion.

Federal Credit Activities[1]

(in millions of dollars)

Department or Other Unit	Direct Loan Obligations			Guaranteed Loan Commitments		
	1986	1987	1988	1986	1987	1988
Agriculture	26,658	22,508	15,915	4,117	8,113	6,840
Commerce	10	160	17	41	72	0
Defense	568	0	0	0	0	0
Education	1,582	1,232	1,404	8,575	9,591	9,398
Energy	4	0	0	0	0	0
Health and Human Services	22	47	32	374	343	100
Housing and Urban Development[2]	1,060	1,711	832	102,673	87,125	70,000
Interior	67	67	45	37	40	34
Labor	2	3	3	0	0	0
State	1	1	1	0	0	0
Environmental Protection Agency	32	0	0	0	0	0
Small Business Administration	1,543	916	804	2,780	3,617	3,510
Veterans Administration	972	933	829	34,297	35,000	27,930
Other Independent Agencies						
Export-Import Bank	578	900	1,000	5,508	11,355	10,000
Federal Deposit Insurance Corporation	128	0	0	0	0	0
Federal Savings & Loan Insurance Corporation	21	25	25	506	103	300
National Credit Union Administration	34	61	77	6	2	1
Tennessee Valley Authority	268	301	280	0	0	0
Total	41,329	34,927	27,136	159,243	155,705	128,362
Secondary Guaranteed Loans[2]				137,962	132,500	100,000

---

[1] Figures for fiscal 1986 are actual; figures for 1987 and 1988 are estimates.

[2] Commitments by GNMA to guarantee securities that are backed by loans previously insured or guaranteed by the Federal Housing Administration, Veterans Administration, or Farmers Home Administration (secondary guarantees) are excluded from the totals and shown as a memorandum entity.

Budget Authority[1]
(in billions of dollars)

					Percent Change 1987-1988	
Function	1981	1986	1987	1988	Nominal	Adjusted for Inflation
050 National Defense	180.0	289.1	292.9	312.0	6.5	2.9
150 International Affairs	27.4	16.7	18.0	19.1	6.1	2.5
250 General Science/Space/ Technology	6.6	9.3	12.2	11.5	-5.7	-8.9
270 Energy	15.1	6.0	2.6	2.5	-3.8	-7.1
300 Natural Resources and Environment	11.2	11.7	13.2	14.1	6.8	3.2
350 Agriculture	13.4	29.9	27.3	22.2	-18.7	-21.4
370 Commerce and Housing Credit	12.8	11.0	7.9	8.8	11.4	7.6
400 Transportation	27.0	28.9	27.0	24.6	-8.9	-12.0
450 Community and Regional Development	10.0	6.9	6.1	5.3	-13.1	-16.1
500 Education, Training, Employment, and Social Services	32.9	30.3	30.0	28.8	-4.0	-7.3
550 Health	27.0	36.6	40.3	41.4	2.7	-0.7
570 Medicare	42.0	87.2	83.9	94.4	12.5	8.7
600 Income Security	129.7	158.0	160.5	160.2	-0.2	-3.6
650 Social Security	134.6	201.7	227.4	259.1	13.9	10.1
700 Veterans Benefits and Services	23.2	27.2	27.1	27.7	2.2	-1.2
750 Administration of Justice	4.4	6.8	8.7	9.0	3.4	-0.1
800 General Government	5.1	6.8	6.9	7.5	8.7	5.0
850 General Purpose Fiscal Assistance	6.2	5.8	1.6	1.5	-6.3	-9.4
900 Interest	68.7	136.0	137.5	139.0	1.1	-2.3
920 Allowances	0.0	0.0	0.0	-0.9	0.0	0.0
950 Undistributed Offsetting Revenues	28.0	-33.0	-37.1	-45.4	22.4	18.2
Total	749.1	1,072.8	1,093.9	1,142.2	4.4	0.8

---

[1] Figures for fiscal 1981 and 1986 are actual; figures for fiscal 1987 and 1988 are estimated.

Budget Outlays[1]
(in billions of dollars)

					Percent Change 1987-1988	
Function	1981	1986	1987	1988	Nominal	Adjusted for Inflation
050 National Defense	157.5	273.4	282.2	297.6	5.5	1.9
150 International Affairs	13.1	14.2	14.6	15.2	4.1	0.6
250 General Science/Space/ Technology	6.5	9.0	9.5	11.4	20.0	15.9
270 Energy	15.2	4.7	3.8	3.3	-13.2	-16.1
300 Natural Resources and Environment	13.6	13.6	13.9	14.2	2.2	-1.3
350 Agriculture	11.3	31.4	31.1	26.3	-15.4	-18.3
370 Commerce and Housing Credit	8.2	4.4	9.3	2.5	-73.1	-74.0
400 Transportation	23.4	28.1	27.0	25.5	-5.6	-8.8
450 Community and Regional Development	10.6	7.2	6.2	5.5	-11.3	-14.3
500 Education, Training, Employment, and Social Services	33.7	30.6	29.8	28.4	-4.7	-7.9
550 Health	26.9	35.9	39.7	38.9	-2.0	-5.3
570 Medicare	39.1	70.2	71.6	73.0	2.0	-1.5
600 Income Security	99.7	119.8	124.9	124.8	-0.1	-3.5
650 Social Security	139.6	198.8	207.9	219.4	5.5	2.0
700 Veterans Benefits and Services	23.0	26.4	26.7	27.2	1.9	-1.6
750 Administration of Justice	4.8	6.6	8.3	9.2	10.8	7.1
800 General Government	4.6	6.1	6.8	7.5	10.3	6.6
850 General Purpose Fiscal Assistance	6.9	6.4	1.9	1.5	-21.1	-23.7
900 Net Interest	68.7	136.0	137.5	139.0	1.1	-2.3
920 Allowances	0.0	0.0	0.0	0.8	0.0	0.0
950 Undistributed Offsetting Revenues	-28.0	-33.0	-37.1	-45.4	22.4	18.2
Total	678.2	989.8	1,015.6	1,024.3	0.9	-2.6

---

[1] Figures for fiscal 1981 and 1986 are actual; figures for fiscal 1987 and 1988 are estimated.

Impact on State and Local Governments

State and local government budgets, like the federal budget, are influenced greatly by national economic conditions. State and local governments have benefitted significantly from national economic growth over the past four years.

Nevertheless, the administration's proposed reductions or terminations of grant-in-aid programs, on top of those enacted in previous years, pose a significant challenge to the stability of state and local government finances, particularly for those states that have not recovered economically from the recession of the early 1980s. The fiscal 1988 budget plan proposes $102.1 billion in budget authority, a reduction of 3.9 percent, and $106.3 billion in outlays, a 3.3 percent cut, for federal grants to state and local governments. In comparison, fiscal 1987 budget levels were $106.2 billion in budget authority and $109.9 billion in outlays for grants-in-aid.

Among the programs that would be terminated are Urban Development Action Grants, economic development assistance, energy conservation grants, and various other urban and rural grant programs. The Community Development Block Grants Program would be phased out beginning next year. Mass transit grants would be cut by $700 million. Other cuts proposed by the president include:

- a reduction of $1.3 billion for the Medicaid program as a result of proposals to limit the growth in federal assistance to states (a saving of $1.0 billion in fiscal 1988), a limit on federal aid for state administrative costs to 50 percent, and a further reduction in the matching rate for states with excessive administrative costs;

- an outlay reduction of $800 million in Aid to Families with Dependent Children and the Child Support Enforcement Program;

- an outlay reduction of $500 million in food and nutrition assistance.

In addition, the administration proposes some changes in program design that will draw public attention but are unlikely to result in major shifts. In some cases, the proposals already have been rejected by Congress:

- replacement of the Trade Adjustment Assistance and Job Training Partnership Act programs for dislocated workers with a new, expanded Worker Adjustment Assistance program;

- a new welfare youth training and employment program that would restructure the existing Summer Youth Employment Program; and

- a proposed highway block grant that would combine categorical interstate construction, interstate rehabilitation, and primary highway programs.

SECTION ONE: COMMUNITY AND ECONOMIC DEVELOPMENT

Federal community and economic development programs, significantly diminished in recent years, are slated for additional cuts or total elimination in the president's fiscal 1988 budget proposal. The administration is pressing for numerous changes that, if enacted, would result in a substantially reduced federal role in local community and economic development activities.

The proposal reflects the administration's conviction that economic development assistance ought to be a state and local function. It seeks only $5.3 billion in new budget authority in fiscal 1988 for community and regional development, a 23 percent reduction from the fiscal 1986 level of $6.9 billion and a 13 percent reduction from the fiscal 1987 level of $6.1 billion. In comparison, $8.14 billion was appropriated for development activities in fiscal 1981.

The president again has requested termination of the Urban Development Action Grant (UDAG) program, the Economic Development Administration (EDA), most direct loan programs of the Small Business Administration (SBA), and the Department of Housing and Urban Development (HUD) Section 108 loan guarantee program. The administration intends to reduce HUD's Community Development Block Grant (CDBG) program by $375 million to $2.62 billion in fiscal 1987, and it would seek the same amount in fiscal 1988.

Housing programs, which have borne deep cuts in the last five years, would face a 49 percent reduction in budget authority from congressionally authorized fiscal 1987 levels, from $7.2 billion to $3.92 billion, even though the administration proposes to increase the number of units assisted for the first time by 388, or 0.4 percent. (Last year, the administration asked for no new program authority whatsoever.)

The president seeks $1.01 billion in fiscal 1987 program rescissions, including:

- $99.6 million in housing development grants;
- $238.8 million in moderate rehabilitation funds;
- $125 million in rental rehabilitation grants;
- $205.4 million in UDAG funds; and
- $375.2 million in CDBG funds.

The budget also proposes to "shift [$880 million in] fiscal year 1987 fund availability into fiscal year 1988" for public housing modernization programs and operating subsidies, and Section 202 housing assistance for the elderly and handicapped.

In the face of program cuts, tax code incentives play a more prominent role in spurring economic development activity. The two most popular, rehabilitation tax credits and tax-exempt industrial development bonds (IDBs), were scaled back by the 1986 Tax Reform Act. In its budget proposal, the administration does not anticipate any further changes in these provisions.

A. Community Development Block Grants (CDBG)

The budget proposes a fiscal 1988 CDBG funding level of $2.625 billion. This amount includes an "estimated" appropriation of $2.510 billion and the transfer of an estimated $115 million in the unobligated balance from HUD's Section 312 rehabilitation loan fund (which then would be terminated). The amount of new budget authority ultimately enacted would be the difference between the amount of Section 312 funds available for transfer and the specified target level.

The budget also proposes to rescind $375.2 million of the $3 billion fiscal 1987 appropriation for CDBG. The remaining $2.625 billion, which would be 12.5 percent less than the fiscal 1986 amount, would be consistent with the amount proposed for fiscal 1988. This would be the lowest funding level for the program since fiscal 1976. The administration has proposed termination of the Section 108 loan guarantee program, which enables many older communities to leverage limited CDBG resources for major inner-city redevelopment projects. Section 108 carries a $150 million loan limit for fiscal 1987. Unlike previous years, the administration is not seeking legislative changes in the distribution of CDBG funds between entitlement jurisdictions and states/small cities.

The CDBG program provides assistance for locally determined physical, economic, and community development activities targeted to low- and moderate-income families and distressed neighborhoods. Entitlement jurisdictions -- generally those with populations exceeding 50,000 -- receive direct formula grants; states receive a formula-based allocation with which they operate discretionary programs for their small communities.

In fiscal 1985, entitlement cities spent 22 percent of their CDBG resources for public works projects. Housing-related activities absorbed 36 percent, with single-family housing rehabilitation accounting for half that amount. Economic development activities, such as loans and grants to businesses and related infrastructure support, claimed 11 percent of the cities' funds.

States awarded 36 percent of their grants to communities with populations under 2,500 and 17 percent to jurisdictions larger than 10,000 persons. Nearly 46 percent of the state awards were for public works projects (more than half of that for water and sewer improvements), and 15 percent went for other economic development activities. About 24 percent were housing-related.

The administration's budget request would earmark $1.8 billion for large cities and $773 million for small communities in fiscal 1988. Actual amounts in fiscal 1986 were $2.053 billion and $879.7 million; the estimated levels for fiscal 1987, before the proposed rescission, are $2.054 billion and $880.2 million. (See the table at the end of this section for CDBG and Section 108 allocations for fiscal 1986.)

The 1988 appropriation request will require legislative authorization. In addition, the administration intends to offer legislation to "better target funding, within the entitlement category, to those communities with the greatest need." This change, mentioned without specific legislative language, apparently would reduce the assistance provided to less-needy CDBG recipients by establishing new threshhold criteria for entitlement communities. Without question, entitlement funds are being stretched thinner and thinner. In 1981,

BUDGET SUMMARY

(in millions of dollars)

					Percent Change 1987-1988	
	1981 Actual	1986 Actual	1987 Estimated	1988 Request	Nominal	Adjusted for Inflation
Community Development						
Community Development Block Grants						
Budget Authority	3,694	3,023	2,627[1]	2,510	-4.45	-7.68
Outlays	4,042	3,337	3,284[1]	2,996[1]	-8.77	-11.85
Urban Development Action Grants						
Budget Authority	677	316	20[2]	0	-100.00	-100.00
Outlays	388	461	428	355[2]	-17.06	-19.86
Section 108						
Budget Authority	NA	113	150	0	-100.00	-100.00
Outlays	NA	0	0	0	--	--
Outstanding Loan Obligations	250	300	439	452	2.96	-0.52
Economic Development Administration						
Economic Development Administration Programs						
Budget Authority	437	191	28[3]	0	-100.00	-100.00
Outlays	502	253	201[3]	163[3]	-18.91	-21.65
Appalachain Regional Commission						
Budget Authority	299	117	74[4]	0	-100.00	-100.00
Outlays	337	159	140[4]	120[4]	-14.29	-17.18
Small Business Administration						
Business Loan and Investment Fund Program						
Budget Authority	609	505	300	137	-54.33	-55.88
Outlays	574	427	264	-334[5]	-226.52	-222.24
Guaranteed Loan Commitment Levels	3,061	2,309	3,111	3,114	0.10	-3.29
General Revenue Sharing						
General Revenue Sharing						
Budget Authority	4,567	4,185	0	0	--	--
Outlays	5,134	5,114	76	0	-100.00	-100.00

BUDGET SUMMARY

(in millions of dollars)

	1981 Actual	1986 Actual	1987 Estimated	1988 Request	Percent Change 1987-1988	
					Nominal	Adjusted for Inflation
			Housing			
Operating Subsidies for Public Housing						
Budget Authority	1,071	1,159	1,435	1,377	-4.04	-7.29
Outlays	929	1,181	1,344	1,489	10.79	7.04
Assisted Housing						
Budget Authority	24,839	9,537	7,362[6]	3,920	-46.75	-48.55
Outlays	5,747	10,183	9,794[6]	10,384[7]	6.02	2.44
Elderly/Handicapped						
Budget Authority	797	493	415[8]	0	-100.00	-100.00
Outlays	817	531	515	47	-90.87	-91.18
Housing Development Grants						
Budget Authority	NA[9]	72	0[10]	0	--	--
Outlays	NA[9]	62	157	162	3.18	-0.30
Rental Rehabilitation						
Budget Authority	NA[9]	72	95[11]	75	-21.05	-23.72
Outlays	NA[9]	80	165	113	-31.52	-33.83

---

[1] Includes a proposed rescission of $325 million in budget authority and $7.5 million in outlays in fiscal 1987, and $143 million in outlays in fiscal 1988.

[2] Includes a proposed rescission of $205 million in budget authority and $12 million in outlays in fiscal 1987, and $48 million in outlays in fiscal 1988.

[3] Includes a rescission of $125.5 million in budget authority and $17 million in outlays in fiscal 1987, and $34 million in outlays in fiscal 1988; includes a transfer of $38.5 million in budget authority and $4 million in outlays in fiscal 1987 to close out proposed discontinued programs.

[4] Includes a rescission of $31 million in budget authority and $4.2 million in outlays in fiscal 1987, and $9 million in outlays in fiscal 1988.

[5] Includes offsetting receipts from sale of assets.

[6] Includes a proposed rescission of $436 million in budget authority and $12.5 million in outlays in fiscal 1987.

[7] Includes proposals to cut outlays by $133 million and rescind an additional $60 million in fiscal 1988.

[8] Includes a proposal to cut budget authority by $91 million in fiscal 1987.

[9] Program did not exist in 1981.

[10] Includes a proposed rescission of $99.5 million in budget authority in fiscal 1987.

[11] Includes a proposed rescission of $125 million in budget authority in fiscal 1987.

669 entitlement communities split $2.67 billion in CDBG resources; in 1987, a record 827 communities will share $1.8 billion. In other words, one-fifth more jurisdictions must work with 32 percent less funds. A HUD-developed formula change, which this language suggests, could become a significant issue in program reauthorization this year, and could affect the distribution of funds to the region's cities.

CDBG funds now are distributed according to a dual formula that takes into account the very different problems associated with growth and decline. The original 1974 formula was based on three factors: poverty population (50 percent); population (25 percent); and overcrowding (25 percent). A second formula was added in 1977 to take into account the relative needs of older urban centers. This so-called "B" formula also uses three elements: poverty (30 percent); population growth lag (20 percent); and pre-1940 housing (50 percent). Entitlement communities receive the higher of the allocations calculated using the two formulas.

Section 108 Loan Guarantees. The administration's request proposes to end the Section 108 program in fiscal 1988. Congress enacted a $150 million guarantee limit as part of the fiscal 1987 HUD appropriation. Under the program, HUD is authorized to guarantee loan obligations of communities to finance acquisition of real property, and to rehabilitate publicly owned real property. More than half of Section 108 assisted projects are situated in central business districts, typically as a complementary part of a larger project.

If approved, this change would eliminate a proven tool for downtown economic development financing. Section 108 enables communities to finance large-scale projects that could not be undertaken easily using only annual entitlement programs. Loans usually are repaid within six years, with future CDBG funds pledged as security. From fiscal 1984 to fiscal 1985, guaranteed loans increased from $87 million to $133.5 million. Even with the imposition of service and processing fees, cities received $138.2 million in guaranteed loans in fiscal 1986. The budget reconciliation act of 1985 continued program authority but required private financing, rather than Federal Financing Bank (FFB) underwriting, for all loan guarantees committed after July 1, 1986.

The Northeast and Midwest, which have 44 percent of the nation's population, received 50 percent of all CDBG funds in fiscal 1986 -- 39 percent of the state funds and 55 percent of the entitlement resources. The 12.5 percent proposed funding reduction would have a significant impact on cities and states in the region. New York could lose $39 million; Illinois, $20 million; Michigan, $15 million; Ohio, 17 million; and Pennsylvania, $24 million.

Many cities have sustained cuts of 15 to 25 percent since fiscal 1981 as a result of the rapid increase in the number of entitlement cities and the introduction of 1980 census data into the funding formula. Loss of the Section 108 program as well would affect the region negatively and disproportionately. Communities in the region have claimed 63 percent of the $825 million in guarantees approved since the program began.

B. Urban Development Action Grants (UDAG)

Although acknowledging that the UDAG program "has had substantial success" as an economic development stimulus in numerous communities, the president again proposes to terminate it in fiscal 1988. In addition, the president is seeking a rescission of $205.4 million in UDAG funds (out of a fiscal 1987 appropriation of $225 million) not yet awarded, and about $32 million in unused balances from prior-year applications. This would include cancellation of the January awards cycle; applications for that round have been processed, but no awards will be made until after Congress acts on the rescission request. Even without the proposed rescission, UDAG spending would be 48 percent less than in fiscal 1985, when it was $440 million. The administration estimate of $355 million in outlays for fiscal 1988 reflects only the continued spendout of funds for projects approved in prior years.

If implemented, these changes would have a significant impact on economic revitalization efforts in many communities. Cities in the Northeast and Midwest historically have received two-thirds of all UDAG awards; elimination of the program would be felt keenly. Since 1978, the program has generated nearly $17.2 billion in private investment and is credited with creating over 300,000 jobs in the region and saving an additional 100,000. In addition, UDAG has provided $569 million in assistance to the region's small cities. (See the UDAG Investment and Job Creation and UDAG Awards to Large and Small Cities tables at the end of this section.)

The administration fundamentally opposes the use of federal funds to help states and local governments influence the location choices of private businesses. However, Congress has maintained the UDAG program because of its determination to promote the revival of older urban and rural areas. Congress had decided that these areas need additional assistance to share in the benefits of national economic growth.

The UDAG program provides the financial incentives necessary to encourage private businesses to undertake major commercial, industrial, and neighborhood development projects in economically distressed communities. UDAG has promoted public-private partnerships and shown their effectiveness in fostering revitalization activities. It has helped to ease the financial risk of development in inner cities and distressed communities and improved their attractiveness for investment. Each UDAG dollar is credited with leveraging more than six times as many private dollars. A HUD study indicated that in nearly two-thirds of all recipient communities, repayments of UDAG loans are recirculated for new economic development purposes, often through local revolving loan funds. In fiscal 1985, 87 percent of all UDAG funds were disbursed as loans; one-third of the projects also included some form of participation in net cash flow or net sales proceeds. The impact of the initial UDAG award thus is multiplied for greater community benefit.

In 1986, 279 projects shared $412 million in UDAG assistance. Large cities secured 180 projects; 99 went to small communities. About 50 percent of the awards funded commercial activities, 27 percent went for industrial development, and the remaining 23 percent funded neighborhood projects. These 279 awards attracted $3.5 billion in private resources and were tied to $487 million in other federal, state, and local assistance. Thus, the UDAG program was responsible for channeling more than $4.4 billion in investment to distressed communities. The 1986 results were achieved with the lowest resource level in UDAG history. By comparison, in fiscal 1983 UDAG channeled $635 million into 459 projects, 44 percent of which went to small cities.

The UDAG program has assisted nearly 2,600 development projects in more than 1,100 cities since 1978. Nationwide, $4.1 billion in UDAG resources is credited with generating:

- nearly 540,000 permanent new jobs, 111,000 retained jobs, and 450,000 construction jobs;
- more than $25.4 billion in private investment;
- more than $600 million annually in local tax revenues, with two-thirds coming from property levies; and
- more than 105,000 units of rehabilitated or newly constructed housing, nearly 40 percent for low- and moderate-income persons.

Sustained economic growth since 1982 has contributed to a large increase in the number of high-quality UDAG proposals submitted for consideration. By December 1983, the number of UDAG proposals satisfying all funding requirements -- so-called "fundable projects" -- began to exceed the money available. To determine awards, HUD put into place a statutorily based project-ranking system that weighed the three mandated criteria as follows:

- 30 percent of the composite rank is determined by *project quality*, including private investment, leverage, and number of jobs created;
- 30 percent is linked to applicant *distress*, based on per-capita income, unemployment, and job lag or decline; and
- 40 percent is determined by applicant *impaction*, based on pre-1940 housing (50 percent of impaction), extent of poverty (30 percent), and population growth lag (20 percent).

As the gap between qualified fundable projects and available funding has widened, the new selection process increasingly has channeled awards to cities ranking highest on HUD's "distress" scale. This has skewed funding distribution, and frustrated efforts in less-distressed but still eligible cities, which are relatively less competitive.

	Percent Dollar Awards Pre-December 1983	Percent Dollar Awards December 1983 to January 1986	Percent Dollar Awards Fiscal 1986
Northeast	36.6	44.7	41.8
Midwest	27.4	21.9	19.6
South	19.9	16.6	20.5
West	13.2	9.4	12.4
Caribbean[1]	2.9	7.4	5.7

---

[1] Caribbean includes Puerto Rico and the Virgin Islands.

SOURCE: Department of Housing and Urban Development, Office of Community Planning and Development, unpublished data, February, 1986; and *Urban Development Action Grant Data Book* (Washington, D.C., December 10, 1986), p. 17.

The gap between submitted projects and available funding remains significant. Although authorized program resources have been cut 48 percent to $225 million since fiscal 1985, public and private demand for UDAG assistance remains high. In the last large-cities funding cycle of fiscal 1986, 218 applications seeking $526 million were considered; 22 projects were awarded $92 million. The last small-cities cycle found 190 applicants requesting $262 million; 33 projects shared $27 million. In the course of program reauthorization, Congress will have to consider various strategies to ensure that the program is targeted appropriately and remains a valuable mechanism for revitalizing communities.

The 99th Congress considered several remedial proposals, which are certain to resurface this year. Discussions have focused on the creation of a new two-tier system under which HUD would distribute some portion of the funds solely on the basis of project merit. The House Banking Committee recommended a two-tier UDAG selection formula that would award 60 percent of the program's funds under the existing impaction-and-distress factors and 40 percent based on the strength of project quality. The Senate Banking Committee also advanced a two-tier system in which two-thirds of the awards in each round would be based on impaction and distress and one-third on project merit. Although the proposals of the two committees were similar, final agreement proved elusive in 1986.

The Senate Banking Committee also has considered a 50-50 split. Committee members have proposed other project-merit scoring reforms, including giving increased weight to projects that retain or "spin off" new jobs, those addressing a community's most pressing employment needs, and those located in the applicant's most distressed neighborhoods. Another proposal would give extra points to applications from cities not receiving UDAG funds in the previous two years.

A two-tier system would make proposals from UDAG-eligible communities with a lower rank on the HUD distress scale more likely to receive an award. These areas tend to score higher on project merit criteria because they require less federal funding to attract the necessary private investment. The two-tier system would broaden funding distribution, but it is not clear that such a mechanism would continue to target funds to the areas of highest need across the nation. The two-tier methods under consideration would reduce the Northeast-Midwest region's share of UDAG awards below the level it has enjoyed in the past 24 months. In most states in the region, however, the awards would not drop more than one percent below their average participation rate from 1978 to 1983; several states would garner greater amounts than in the past.

The UDAG program has invested nearly $2.8 billion in cities in the Northeast and Midwest. These funds helped leverage more than $17.2 billion in private investment and create or retain over 440,000 jobs. Since the program began in 1978, the region has received 68 percent of UDAG funds, attracted 67 percent of the related private investment, and received about 68 percent of the related job benefits.

The Northeast, which contains 23 percent of the nation's population, has almost 30 percent of the UDAG-eligible population. It has benefited from UDAG's focus on areas of special need, receiving 41.8 percent of all funds through 1986. In the same period, 26.3 percent of the funds went to the Midwest, which contains 24 percent of the UDAG-eligible population. Nearly $569 million in UDAG assistance has gone to the region's small cities since

1978, more than 53 percent of the national total. Regional leaders believe that UDAG has been a key contributor to promoting economic development in large cities and small communities within the Northeast and Midwest, and that termination of the program would be a significant loss.

C. Economic Development Administration (EDA)

The administration proposes to terminate EDA, maintaining as it has since 1981 that EDA programs are obsolete, "distort private financial markets," and provide federal funds only to favored local areas "to the detriment of the overall national economy." It seeks no new grant or loan guarantee authority and proposes to rescind all unobligated amounts from the $180.4 million appropriated for fiscal 1987, an estimated $124 million.

Strong congressional support for EDA's assistance to local areas has allowed the agency to continue operations with a small budget. Congress provided $180.4 million for fiscal 1987, a figure significantly below the 1981 level of $440 million. The administration's fiscal 1987 proposal also would eliminate the Appalachian Regional Commission (ARC) fiscal 1987 appropriation of $127.1 million. In addition, rescission of all unobligated ARC program balances as of March 15, 1987, estimated at $31.1 million, is requested.

EDA supports programs to create jobs and spur economic growth and diversification in distressed areas. Its activities are concentrated in three programs. Title I provides development grants for construction or renovation of public facilities. Title III provides technical assistance to states, cities, small communities, and rural districts to develop and institutionalize economic development planning capacity. Title IX has two goals: reversing the effects of long-term economic deterioration, and quickly countering "sudden and severe" economic upheavals, such as plant closings.

The table below shows how EDA funds were spent in the past, and fiscal 1987 appropriated program levels.

EDA Programs
(in millions of dollars)

Program	1981	1986	1987
Planning Grants	23.9	25.8	24.0
Technical Assistance	26.4	7.7	7.0
Development Grants	257.9	107.2	122.4
Economic Adjustment	12.6	24.9	24.0
Direct Loans	54.1	0.0	0.0
Research and Evaluation	2.7	1.9	1.0

The Northeast-Midwest region's share of EDA allocations has declined in recent years in all categories as program eligibility has broadened. In fiscal 1986, the region received 25 percent of total EDA spending, compared with 38 percent in fiscal 1985 and 52 percent in fiscal 1981. The Mid-Atlantic states claimed only 10 percent of all public works grants and 14 percent of the economic adjustment assistance in fiscal 1986; the Midwest garnered 20 percent and 15 percent in the same categories. These proportions have stayed fairly constant in the past few years, even though many of these areas have very high unemployment rates. (See the table on EDA obligated projects for fiscal 1985 at the end of this section.)

In a 1981 evaluation, the House Subcommittee on Economic Development found that the $4.7 billion invested in EDA from 1965 to 1980 had created or saved 1.4 million jobs in the private sector at a cost of $3,357 per job. EDA funds were credited with leveraging $9 billion in private investment. These jobs and investments return about $6.5 billion in taxes and other revenues to state, local, and federal coffers annually.

Considerable bipartisan support for EDA exists in the House of Representatives. In the 99th Congress, the House passed legislation by a wide margin (260 to 96) that would restructure EDA and make it a more effective partner in local economic development. Similar legislation has already been introduced into the 100th Congress by Representatives James L. Oberstar (DFL-MN), Henry J. Nowak (D-NY), and William F. Clinger, Jr. (R-PA). That bill, the National Development Investment Act, would provide $425 million in annual grant authority to assist economic development facility projects. The federal share of any project would be limited to 50 percent of its total cost, and major private-sector involvement would be required. In addition, $75 million annually would be authorized for economic development planning and technical assistance, which has helped small cities and rural communities especially. The bill would establish tighter targeting provisions for EDA programs. It would make 41 percent of the nation's most distressed areas eligible for aid, rather than the 80 percent that qualifies now.

These proposed changes would increase EDA's assistance to the region. The bill targets funds more carefully to areas of need and puts special emphasis on infrastructure repair and rehabilitation efforts. The bill also promotes economic adjustment aid, local access to private capital, and employee purchases of plants -- measures that could help protect communities from the sudden losses that accompany plant shutdowns.

While the economic climate in much of the Northeast and Midwest has improved recently, parts of the region continue to endure high unemployment and sluggish economic growth. This is especially true in smaller and mid-size communities in the Mid-Atlantic and Midwest states still suffering from the shrinking and loss of heavy industry; others are being buffeted by the region's agriculture crisis and related bank and business failures. Few of these communities have the resources necessary to deal with economic transition. They have a keen interest in preserving effective federal involvement in economic development.

D. Small Business Administration (SBA)

Unlike previous years, the president's fiscal 1988 budget request would retain SBA as an independent agency, at an overall level of $3.134 billion. This is only 4 percent less than the congressionally authorized level for fiscal 1987. More than 99 percent of business development assistance proposed for fiscal 1985 would be in the form of loan guarantees rather than direct financial aid, compared to 94 percent in fiscal 1986. The budget also anticipates the sale of portfolio assets in fiscal 1987 and 1988. In this fiscal year, sale of $800 million in disaster loans is planned, with an expected revenue return of $277 million. In fiscal 1988, $1 billion in Section 7(a) business loans, $500 million in Section 503 loans, and $740 million from the disaster loan portfolio would be sold, yielding $643 million in offsetting receipts.

Small Business Administration (SBA) Business Loan and Investment Fund
(commitment levels in millions of dollars)

SBA Program	1981 Actual	1986 Actual	1987 Approp.	1988 Request
General Business Loans(7a)	$3,009.9	$2,129.5	$2,473.0	$2,494.0
Direct	205.1	0.0	0.0	0.0
Guaranteed	2,804.8	2,129.5	2,473.0	2,494.0
Handicapped Loans	26.7	15.3	20.0	0.0
Direct	25.0	13.6	15.0	0.0
Guaranteed	1.7	1.0	5.0	0.0
Economic Opportunity Loans	69.4	45.6	80.0	0.0
Direct	49.0	13.6	24.0	0.0
Guaranteed	20.4	32.0	56.0	0.0
Energy Loans	14.0	0.0	14.0	0.0
Direct	6.7	0.0	0.0	0.0
Guaranteed	7.3	0.0	14.0	0.0
Development Company Loans(503)	72.6	353.2	373.0	373.0
Direct	6.0	0.0	0.0	0.0
Guaranteed	66.6	353.2	373.0	373.0
Investment Company Loans	201.2	175.0	272.0	267.0
Direct (MESBIC)	41.2	39.0	39.0	20.0
Guaranteed (SBIC)	160.0	136.0	233.0	247.0
Veterans Loans	0.0	19.1	19.0	0.0
Direct	0.0	0.0	19.0	0.0
Guaranteed	0.0	0.0	0	0.0
Total Business Loans	3,393.8	2,737.7	3,251.0	3,134.0
Direct	333.0	86.0	97.0	20.0
Guaranteed	3,060.8	2,651.7	3,154.0	3,114.0

- The Business Loan and Investment Fund (BLIF), authorized at $137 million in fiscal 1987, provides direct and guaranteed loans for general business creation and expansion, energy improvements, and businesses operated by handicapped persons and veterans. The budget request proposes elimination of all direct lending, except $20 million to fund Minority Enterprise Small Business Investment Corporations (MESBIC).

SBA's loan guarantee programs, which comprise much of the agency's overall activity, would be continued at slightly lower levels (about 1.3 percent less) than authorized in fiscal 1987. Under the guarantee plan, SBA agrees to purchase the guaranteed portion of the loan from the lender if there is a default. The largest of these programs, the Section 7(a) general business loan program, has an authorized guarantee limit of $2.47 billion in fiscal 1987. The Section 503 development companies program, authorized at $373 million in fiscal 1987, helps SBA-certified development companies provide small businesses with long-term, fixed-asset financing. Several small guarantee programs (handicapped, economic opportunity, and energy) have a combined fiscal 1987 loan limit of $75 million. All are proposed for elimination, as the agency plans to consolidate all guaranteed credit offerings into three major programs: general business assistance (7[a]); economic development assistance (Section 503); and investment assistance (MESBIC and SBIC). The SBIC program, authorized at $233 million in fiscal 1987, provides venture capital assistance to SBA-certified companies that make investments in emerging growth companies. (For state-by-state figures, see the table at the end of this section.)

Combined fiscal 1987 spending for these programs was set at $525 million, down from $1 billion in fiscal 1985. The administration's fiscal 1988 budget projects $379 million in spending in fiscal 1988. This 28 percent reduction from 1987 to 1988 is attributed to more diligent loan servicing and underwriting and several proposed fee-generation and guarantee-level changes, including:

- increasing the 7(a) general business guarantee fee from 2 percent to 3 percent to the borrower, plus a 1 percent fee to be paid by the bank;

- phasing down the 90-percent guarantee of federal business lending to 75 percent by 1992; and

- decreasing the 100 percent guarantee of SBIC assistance to 90 percent.

In addition, the administration proposes to eliminate SBA's ability to purchase small business investment company preferred stock; it prefers a guarantee program only. The $14 million in additional SBIC authority sought this year will help these companies obtain financing from private markets. The budget also proposes to begin a three-year phase out of the Small Business Development Center (SBDC) program, which provides a variety of technical and management services to small business owners. Many SBDCs are located on university campuses, and leverage additional non-federal support. The administration seeks to reduce their statutory funding cap to $45 million (from $65 million) and refuse support to any new centers.

The administration would like to reorganize assistance programs for minority businesses by transferring the Department of Commerce's Minority Business Development Administration (MBDA) to SBA and consolidating it with SBA's minority small business and capital ownership development program. This transfer would include 140 positions and $32.5 million in program assistance providing about $5 million less in fiscal 1988 than the separate agency programs contained in fiscal 1987. It also would reduce direct MESBIC lending to $20 million from the fiscal 1987 level of $39 million, while providing an additional $14 million in investment company guarantees.

Even though they are an important source of new jobs, small businesses continue to face problems obtaining credit at reasonable interest rates. Many of those businesses unable to get private financing have turned to the SBA for direct assistance or guarantees. In fact, a 1983 General Accounting Office (GAO) survey found that over 80 percent of financial institutions taking advantage of SBA loan guarantees would not have lent money to the small business without SBA backing.

In 1986, 43 percent of all direct loan program funds were channeled into the Northeast-Midwest region. More importantly, $894 million was pumped into the region's small businesses through guarantee assistance. The region received 44 percent of the total Section 503 program guarantees, most of which help small cities and rural communities. In addition, $200 million in venture capital was directed to the Northeast-Midwest region through SBA-sponsored investment companies, nearly 54 percent of MESBIC an SBIC resources. In total, the region received $1.26 billion in small business assistance in 1986.

Small businesses play a particularly important role in the economy of the Northeast-Midwest region. The older industrial states lost over 1.5 million manufacturing jobs between 1979 and 1984. Small and new businesses have replaced many of these lost jobs. Small business incubators, centers for excellence, and similar entities use public funds to promote small business start-ups and nurture their growth. Several studies have shown that small businesses generate more jobs in the Northeast and Midwest than in any other part of the country.

E. General Revenue Sharing (GRS)

The general revenue sharing program expired on September 30, 1986, and was not reauthorized by Congress. The administration opposes further funding for the program. Distribution of funds appropriated in prior years and still available, slightly more than $76 million, will constitute the fiscal 1987 outlays. Nearly $4.2 billion was appropriated in fiscal 1986.

Revenue sharing was the most comprehensive of all federal aid programs, providing funds to the entire spectrum of local governments. GRS funds were the principal source of federal dollars for many small- and medium-sized communities. In fact, 85 percent of the program's recipients were local jurisdictions with populations under 10,000, most of which receive no other federal assistance.

F. Assisted Housing

The president requests $3.92 billion in new budget authority for assisted housing programs in fiscal 1988. This compares to $7.2 billion in new authority made available by Congress for fiscal 1987, and $9.97 billion authorized in fiscal 1986. This dramatic 61 percent cut since fiscal 1985 would have a significant impact on the Northeast-Midwest region.

The budget also assumes pipeline deobligations (i.e., authority recaptures) of $390.6 million in fiscal 1987 and an additional $347.8 million in 1988. These deobligations represent 1,700 units of prior-year public housing and 5,000 units of Section 8 approvals that now are not deemed "feasible." HUD will offer fiscal 1988 appropriation language to rescind automatically all deobligated balances in these two housing programs.

As the figures in the chart below illustrate, the administration is not proposing the deep, sweeping housing program cuts initially requested last year (when it sought no new budget authority whatsoever), although HUD continues to seek significant reductions in "bricks and mortar" housing programs such as public housing construction and modernization. In addition to reduced fiscal 1988 levels, the administration also would like to rescind 30 percent of fiscal 1987 modernization funds and $239 million in Section 8 rehabilitation assistance. It also proposes to "carry over" $267 million in Section 202 assistance to the elderly and handicapped.

Annual Contributions, Selected Assisted Housing Programs
(millions of dollars)

Program	1986 Actual		1987 Appropriated		1988 Request	
	Units	B/A*	Units	B/A*	Units	B/A*
Public Housing						
Public Housing	3,993	802	0	417	0	0
Indian Housing	2,078	300	2,000	170	1,000	72
Modernization	--	1,441	--	1,437[1]	--	1,000
Section 8						
Section 202	11,515	1,580	12,274[2]	1,639	2,000	276
Housing vouchers	36,257	816	53,564	1,224	84,500	2,014
Rental Rehabilitation	23,500	72	25,000	200[3]	22,000	75
HODAG	3,667	72	0	100[4]	0	0

---

[1] $437 million in budget authority proposed for shifting to fiscal 1988; represented in fiscal 1988 total.

[2] Authority for 2,000 units proposed for shifting to fiscal 1988; represented in fiscal 1988 total.

[3] $125 million proposed for rescission.

[4] All proposed for rescission.

* Budget authority.

In the past six years, the administration has reshaped federal housing policy dramatically. In contrast to the $24.8 billion in new authority for assisted housing in fiscal 1981, the fiscal 1988 budget requests only $3.9 billion in new budget authority. Federally oriented "deep subsidy" programs have given way to less expensive, shorter-duration commitments such as housing vouchers that almost exclusively aid the poor in finding private-sector housing.

Section 8. The Housing Assistance Payments Program, commonly known as Section 8, provides a subsidy that makes up the difference between the actual costs of housing rentals and what lower-income families can afford to pay. Subsidy payments are equal to the difference between the actual rent (which is based on the fair market rent of comparable units in the area) and 30 percent of the family income. Section 8 subsidizes new unit construction, moderate and substantial rehabilitation, and the maintenance of existing rental stock. This program has been very important to Northeastern and Midwestern states. Some 48 percent of all Section 8 assistance has been directed to the region, including 52.4 percent of the program's new construction funds and 71.1 percent of its substantial rehabilitation assistance.

The housing voucher program, proposed by the administration and launched by Congress in 1983, adds a new dimension to housing assistance. In essence, it links assisted families with resources rather than units. The voucher subsidy is based on the difference between an established area market payment standard and a fixed percentage of family income, currently 30 percent for new participants. It does not place a limit on the rent tenants may pay. Families in the Northeast and Midwest have received only 31.8 percent of all housing vouchers.

The administration intends to propose several legislative and regulatory changes to conform the Section 8 certificate program more closely to the voucher program. (For state-by-state figures on vouchers and major Section 8 occupancy levels, see the table at the end of this section.)

The budget proposes assistance for 82,000 new Section 8 units in 1988, and 17,000 Section 8 replacement subsidy units. About 85 percent of these 99,000 "units" will be in the form of housing vouchers. Congress authorized 100,000 Section 8 units in fiscal 1986; just over 36,000 of these were vouchers. No funds are proposed for Section 8 existing housing or moderate rehabilitation.

Public Housing. Public housing is the oldest federal housing program, designed to provide decent, safe, and sanitary housing to low-income families. Although the program is administered by HUD, actual operations are carried out by over 2,800 public housing authorities. Some 52.4 percent of the 1.2 million public housing units are located in the Northeast and Midwest. Public housing accounts for over 10 percent of all housing and provides shelter for over half the poor in several cities in the region. (See the table on public housing at the end of this section.)

In fiscal 1981, Congress authorized approximately 30,000 reservations for new unit construction. By fiscal 1986, the level had dropped to 6,071. The administration anticipates only 2,459 units for fiscal 1987 and seeks only 1,000 in 1988, all of them Indian housing. No other public housing units would be developed.

The Section 202 program provides loans for development of housing for the elderly and handicapped. The administration proposes to shift authority for 2,000 units from fiscal 1987 to fiscal 1988, and plans no further commitments. In fiscal 1986, 11,515 new units were provided under this program.

Federal housing subsidies originally were designed to fund the long-term debt of public housing authorities, while rent collections were intended to meet the operating costs. However, rents have failed to keep pace with expenses. Legislation passed in the early 1970s limited allowable rents to 25 percent of tenant income. This limit was raised to 30 percent in 1981. The operating subsidy thus has been used to bridge the gap between costs and available rental income.

Operating subsidies rose to nearly $1.2 billion by 1985 because of increasing utility, labor, and maintenance costs. Even at that level, many public housing authorities -- particularly those in the urban areas of the Northeast and Midwest -- did not have enough funds to tend to their properties, many of which are now over 30 years old. Authorities now rely on the operating subsidy to meet almost half the day-to-day expenses. These are calculated on the basis of HUD's Performance Funding System (PFS) operations formula. Approximately 65 percent of the operating subsidies support housing authority projects within the Northeast-Midwest region. The operating subsidy proposal for fiscal 1988 is $1.377 billion, although funds carried over from 1987 will increase the total available to $1.462 billion. The operating subsidy need for fiscal 1986 was $1.25 billion; this is projected to increase to $1.44 billion in fiscal 1987.

Over the past few years, Congress has taken a number of steps to promote the long-term viability of the public housing stock, which some experts estimate could cost nearly $75 billion to replace, by appropriating funds for rehabilitation and modernization activities. These resources are channeled through the Comprehensive Improvement Assistance Program (CIAP). Congress has provided over $9.3 billion in budget authority for CIAP since 1981 to improve the physical condition and upgrade the management and operation of public housing.

Slightly more than $707 million was spent on modernization projects in fiscal 1986. Congress appropriated $1.437 billion for fiscal 1987. The administration proposes to shift $436.9 million of those funds to fiscal 1988; this amount, combined with the requested $563.1 million in new budget authority, would permit a $1 billion modernization level in fiscal 1988.

Patterns of modernization program spending reflect the age of public housing stock in the Northeast and Midwest; of the $818 million spent in fiscal 1985, more than 58 percent was targeted to the region.

Rental Rehabilitation and HoDAG. The 1983 Housing and Urban-Rural Recovery Act initiated two housing programs, the Rental Rehabilitation Grant Program and the Housing Development Grant Program, designed eventually to replace Section 8 new construction and substantial rehabilitation. Both promised to improve low- and moderate-income rental housing opportunities in the region. (See the tables at the end of this section.)

The Rental Rehabilitation Grant Program is designed to increase the supply of standard affordable housing by providing grants for rehabilitation of existing rental properties. Formula grants to states and communities are matched with either public or private funds. Grant recipients often give Section 8 certificates or vouchers to tenants who cannot afford the rents on the renovated units. The program is a small but effective tool for upgrading the region's older housing. From its first awards through 1986, it has improved more than 40,000 units in the region. More than 90 percent of the completed units are occupied by low- and moderate-income persons.

The budget requests an appropriation of $75 million for rental rehabilitation grants in fiscal 1988; $1 million of this would be available for technical assistance purposes. The 1988 appropriation requires authorizing legislation. Congress provided $200 million for the program in fiscal 1987. The administration would like to rescind $125 million of that amount.

The Housing Development Grant Program, also known as HoDAG, was patterned after the popular UDAG program. It provides funds to states and local governments on a competitive basis to be used to attract private investment in housing projects. HoDAG was designed to spur new production in areas experiencing severe shortages of rental housing. From 1984 to 1986, some $390 million in HoDAG assistance helped add over 19,000 units nationwide, about one-quarter for low-income persons. Nearly 52 percent of the units were constructed in the Northeast and Midwest.

The administration seeks termination of this program in fiscal 1987, and rescission of the $99.6 million provided for HoDAGs this year. In addition, $10 million in recaptured budget authority from previous years' appropriations would be rescinded.

Nearly 53 percent of the country's public housing units is located in the Northeast and Midwest. Because few new units are being built, this proportion will not change very much in the near future. This stock would be costly to replace; failure to provide adequate operating subsidy levels and modernization programs jeopardizes the government's previous investment. The region's public housing authorities rely heavily on this assistance and have limited alternatives to cover costs. In fiscal 1984, the Northeast and Midwest received 67 percent of all operating subsidies and 63 percent of all modernization (CIAP) funds.

The new HoDAG and rental rehabilitation programs, which encourage more private-sector participation in housing construction and rehabilitation activities to benefit low- and moderate-income persons, also have been beneficial to the region. Since they began in fiscal 1984, 52 percent of rental rehabilitation resources and 62 percent of the competitive HoDAG funds have been awarded to states and communities in the Northeast and Midwest.

Overall, the Northeast and Midwest have received the largest share of housing assistance over the years. The region has most of the oldest public housing stock; any decrease in assisted housing programs will have enormous consequences.

G. Development Incentives in the Tax Code

In the past five years, the tax code has assumed an increasingly important role in state and local economic development strategies and programs. Two provisions in particular are widely used and have had considerable impact in the region -- rehabilitation tax credits and industrial development bonds (IDBs). Both were subjected to considerable scrutiny during last year's tax overhaul process, and both were tightened in the 1986 Tax Reform Act. The administration is not proposing any further changes in either provision.

Rehabilitation Tax Credits. Congress devised rehabilitation tax credits to discourage unnecessary demolition of sound older buildings and to stem the loss or relocation of existing business and industry from older downtown commercial areas. The credits have played an important role in attracting capital into ignored and often blighted areas not ordinarily conducive to investment. Renovated buildings often serve as investment "magnets" for nearby areas.

Rehabilitation tax credits first were included in the tax code in 1978, with considerable support from the Northeast-Midwest Coalitions. The Economic

Recovery Tax Act (ERTA) of 1981 expanded the credit to as much as 25 percent for historic structures and made the rehabilitation and new construction options more equal from a tax standpoint.

The 1986 Tax Reform Act preserved rehabilitation tax credits but scaled them back. It continued the straight-line cost recovery requirement but replaced ERTA's three tiers of credits with two:

- A 20 percent credit and full basis adjustment for rehabilitation of certified historic structures; and
- A 10 percent credit for rehabilitation work on other structures built before 1936.

Expenditures incurred by a lessee do not qualify for the credit unless the term of the lease remaining after renovation is completed is at least as long as the applicable recovery period (27.5 years for residential property and 31.5 years for nonresidential property). In addition, the tax act applied passive loss limitations and the minimum tax to developers of these projects. These changes may limit the viability of rehabilitation tax credits, particularly for larger projects; in many cases, passive loss restrictions would prevent limited partner investors from using them because rehabilitation projects often do not generate sufficient income in early years to allow investors of offset the credits. These changes affect property placed in service after December 31, 1986.

Rehabilitation tax credits have received wide use in the Northeast and Midwest, which contain the largest stock of older buildings in the nation. In the fiscal 1982-1985 period, 5,575 projects using these credits were completed in the region. The nearly $4.8 billion spent on these efforts represented 54.2 percent of the national total. (See table at the end of this chapter for state-by-state data on projects, investments, and jobs generated.) Among the states, Pennsylvania, Illinois, New York, Massachusetts, and Ohio led in the amount of rehabilitation activity.

More importantly, these projects have translated into considerable new private investment and job generation at the state and local level, particularly in older, economically declining areas. Within the Northeast and Midwest, nearly 39,000 housing units and 190,000 person-years of work are attributed to the credit since the ERTA provisions first were enacted -- 62 percent and 55 percent of the national totals.

Several jurisdictions within the region have assessed the impact of rehabilitation tax credits on their economies and report dramatic results: more than $250 million in private investment in Michigan and 10,000 jobs in Detroit alone since 1981; nearly $300 million in additional business activity and 4,000 new jobs in Baltimore during the past four years; and 16,000 new jobs and more than $55 million in corporate and personal tax revenues in Illinois during the 1982-84 period. Nationally, nearly $17.2 billion has been generated in increased local retail sales and business activity, and more than $6 billion in new payroll.

Tax-Exempt Finance. "Tax-exempt finance" has become increasingly prominent as an economic development tool. Many jurisdictions throughout the Northeast-Midwest region find it an attractive way of providing financial assistance for both public capital facilities and private development activities, especially at a time when federal direct grant and loan programs for these purposes are shrinking.

Tax-exempt bonds are issued by states, local governments, and numerous quasi-public authorities and special districts. They are appealing to investors because the interest they bear is exempt from federal taxation, and to issuing jurisdictions because they can provide or leverage capital at less than the prevailing market cost for public projects or private ventures sought by the community. Among the most popular forms of tax-exempt finance are the so-called "eligible-activity" industrial development bonds (IDBs), used for local economic development purposes such as the acquisition, construction, or improvement of privately owned businesses.

The 1986 Tax Reform Act made numerous changes in the treatment of tax-exempt instruments, particuarly IDBs, including program eligibility and volume limits.

Eligible Activities. With some exceptions, IDBs are considered taxable issuances. Local community development strategies that rely on tax-exempt financing are, therefore, built around this specific list of "eligible activities." The 1986 tax act imposes stiffer use and security tests to determine whether or not a bond meets a legitimate interest and is tax-exempt. It also pared back the list of excepted activities.

Volume Limits. In an effort to control the annual volume of private purpose tax-exempt bond activity, Congress adopted volume control limits as part of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1984. Issuances for a number of exempt activities were not placed under the volume "cap," however, and limits and competing state and local demands did not pose a problem for jurisdictions contemplating their use for economic development purposes.

The 1986 tax act provided a "unified" cap that brought nearly all types of private-purpose bonds under one umbrella limit, equal in 1987 to the greater of $75 per resident or $250 million annually. In 1988, the cap will decline to the greater of $50 per capita or $150 million. (For state-by-state figures, see the table at the end of this section.) An additional change involves bond issues that exceed $150 million and meet the use and security test criteria for tax exemption (in other words, qualify as governmental bonds); the portion of the proceeds used for private purposes now must be included in the volume cap. Thus, not only has the portion of the bond proceeds for private use been reduced from 25 to 10 percent, but in many cases this private use is further squeezed by forcing it to compete for allocation under private-activity caps -- even though it is part of a governmental issue.

Tax Act Treatment of Eligible Tax-Exempt IDB Activities
(effective August 15, 1986)

Eliminates

sports facilities
convention and trade show facilities
most parking facilities and structures
industrial parks
air and water pollution control facilities
small issue IDBs[1]
single family housing[2]

Retains

water, sewer, and solid waste facilities
airports, docks, and wharves
multi-family housing (with low-income unit set-asides)
student loans
charitable and educational organization projects
mass commuting facilities
local gas and electric facilities
district heating and cooling

Adds

hazardous waste treatment facilities
qualified redevelopment bonds[3]

---

[1] Except for manufacturing facilities, which are eligible until December 31, 1989.

[2] After December 31, 1988.

[3] Public purpose tax increment finance bonds under prior law.

Unified Cap:
Status of Tax-exempt Activities and State Volume Limits

Under Unified Cap

small issue IDBs[1]
water, sewer, and solid waste facilities[1]
private airports, docks, and wharves[1]
student loan bonds[1]
mortgage revenue bonds[2]
general obligation and revenue bonds that fail the "essential function" test
qualified redevelopment bonds
private use portion (in excess of $15 million) of governmental bonds

Not Under Unified Cap

government-owned airports, docks, and wharves[1]
government-owned solid waste disposal facilities[1]
charitable 501(c)(3) bonds
veterans mortgage bonds[3]

---

[1] Under volume cap established in TEFRA.
[2] Under separate mortgage bond cap established in TEFRA.
[3] Under a separate volume limit under current law.

Provisions in the 1986 Tax Reform Act governing tax-exempt finance will force changes in the way various projects are structured and the way economic development activities are undertaken in the region. Moreover, many local officials are concerned about the regulations, definitions, and interpretations that later could be applied to these new provisions. For example, future IRS rulings on the definition of "related use" could deter the use even of traditional general obligation bonds for certain types of infrastructure improvements. Already, jurisdictions within the Northeast and Midwest are reporting that bond counsels are hesitating to write issuance opinions pending further IRS clarification, and that developers are taking their investment dollars elsewhere rather than endure long delays.

Financing for many major capital projects within the region, such as schools and roads, has had to be repackaged, often with higher financing costs. Government-private partnerships to build and operate solid waste, pollution control, and sewer facilities have been curtailed. In other areas, changes in tax-exempt finance have inhibited cooperative ventures with private businesses.

Almost half (48 percent) of the local officials responding to a January 1987 survey of 140 cities by the Institute of Marketing Research at the University of Bridgeport noted that the changes in tax-exempt finance will deter their community, housing, and economic development activities. Just 6 percent viewed the changes positively. Regardless of their local taxing structure, these mayors anticipated less flexibility in community development strategies, less housing construction, and less support for business growth.

Finally, IDBs encourage economic development by offering prospective entrepreneurs and business operators affordable financing that otherwise might not be available. They allow jurisdictions to channel physical development capital to areas consistent with their economic development plans. More important to many states and cities throughout the Northeast and Midwest, tax-exempt financing enhances industry growth and job creation and retention efforts. In 1985, nearly 55 percent of all small issue-related pojects were undertaken in the region. (See table for state-by-state tax-exempt bond usage and limits.)

States such as New Jersey, New York, and Pennsylvania have made extensive use of IDBs to promote local economic revitalization. Stringent new limits on bond issuances, much more comprehensive than those in TEFRA, will limit severely the ability of many states to continue such efforts; their level of small issue activity alone in 1985 exceeds their total allowable 1987 volume limit.

Community Development Block Grants and Loan Guarantees
(in millions of dollars)

Region and State	CDBG: Fiscal 1986			Section 108 Loan Guarantees Issued Cumulative Fiscal 1978-1986
	Total Allocation	Entitlement Communities	State Nonentitlement	
New England				
Connecticut	34.3	25.1	9.1	2.0
Maine	14.1	4.2	9.9	--
Massachusetts	88.9	64.8	24.1	40.8
New Hampshire	8.9	3.1	5.8	--
Rhode Island	14.4	10.8	3.6	0.2
Vermont	5.6	4.9	0.7	--
Total	166.2	112.9	53.2	43.0
Mid-Atlantic				
Delaware	6.5	5.1	1.4	1.0
Maryland	47.6	40.6	7.0	10.9
New Jersey	94.8	87.1	7.7	32.2
New York	312.9	276.9	36.0	82.6
Pennsylvania	192.0	153.6	38.4	48.9
Total	653.8	563.3	90.5	175.6
Midwest				
Illinois	163.6	134.8	28.8	23.8
Indiana	57.8	32.7	25.1	38.3
Iowa	33.2	11.5	21.7	3.2
Michigan	119.4	91.6	27.8	207.3
Minnesota	47.6	29.3	18.3	0.8[1]
Ohio	138.7	101.1	37.6	26.6
Wisconsin	52.5	30.0	22.5	2.0
Total	612.8	431.0	181.8	302.0
South				
Alabama	46.7	21.3	25.4	2.5
Arkansas	24.2	6.2	18.0	--
District of Columbia	16.9	16.9	0.0	--
Florida	117.3	96.1	21.2	35.4
Georgia	60.6	29.1	31.5	9.0
Kentucky	42.6	17.3	25.3	24.6
Louisiana	55.7	32.2	23.5	12.0
Mississippi	32.0	4.8	27.2	3.5
North Carolina	53.4	16.0	37.4	6.6
Oklahoma	24.8	10.6	14.2	--
South Carolina	32.3	9.2	23.1	3.4
Tennessee	47.0	23.2	23.8	2.5
Texas	175.2	121.3	53.9	2.2
Virginia	48.1	28.4	19.7	17.4
West Virginia	21.7	6.8	14.9	--
Total	798.5	439.4	359.1	119.1

Community Development Block Grants and Loan Guarantees (continued)
(in millions of dollars)

Region and State	CDBG: Fiscal 1986			Section 108 Loan Guarantees Issued Cumulative Fiscal 1978-1986
	Total Allocation	Entitlement Communities	State Nonentitlement	
West				
Alaska	3.2	1.7	1.5	--
Arizona	28.3	22.7	5.6	20.7
California	301.7	279.5	22.2	100.5
Colorado	25.7	17.9	7.8	0.7
Hawaii	13.7	11.4	2.3	--
Idaho	7.3	0.8	6.5	--
Kansas	22.9	8.7	14.2	--
Missouri	62.9	41.8	21.1	39.2
Montana	6.7	1.3	5.4	--
Nebraska	16.0	5.5	10.5	3.7
Nevada	7.3	5.8	1.5	--
New Mexico	13.4	5.1	8.3	--
North Dakota	5.9	1.2	4.7	--
Oregon	24.4	15.5	8.9	4.4
South Dakota	7.1	1.1	6.0	2.9
Utah	15.6	11.0	4.6	7.7
Washington	41.6	32.1	9.5	5.5
Wyoming	3.1	0.7	2.4	--
Total	606.8	463.8	143.0	185.3
Northeast	820.0	676.2	143.7	218.6
Midwest	612.8	431.0	181.8	302.0
Northeast and Midwest	1,432.8	1,107.2	325.5	520.6
South	798.5	439.4	359.1	119.1
West	606.8	463.8	143.0	185.3
South and West	1,405.3	903.2	502.1	304.4
U.S. Total[2]	2,838.1	2,010.4	827.6	825.0

---

[1] Cumulative guarantees figure decreased from earlier total because a previously approved project did not go through.

[2] Totals do not include Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, "Community Development Block Grant Program FY 1986 Revised Allocation with Reallocated Amounts" (Washington, D.C., May 1986), and Office of Financial Management, "Section 108 Loan Guarantee Projects" (Washington, D.C., January 1987).

Urban Development Action Grants: 1978-1986
Awards by Grant Type: Large and Small Cities
(in millions of dollars)

Region and State	Large Cities		Small Cities	
	Cumulative Fiscal 1978-1986	Fiscal 1986	Cumulative Fiscal 1978-1986	Fiscal 1986
New England				
Connecticut	76.1	10.1	0.9	0.0
Maine	15.3	0.0	20.5	2.7
Massachusetts	242.9	20.3	54.1	4.7
New Hampshire	22.0	0.0	5.8	0.0
Rhode Island	20.0	0.2	7.2	0.5
Vermont	5.0	0.0	14.6	2.4
Total	381.3	30.6	100.2	10.3
Mid-Atlantic				
Delaware	41.5	1.6	1.0	0.2
Maryland	92.8	12.8	4.8	0.8
New Jersey	223.4	13.8	43.2	0.2
New York	422.0	25.9	112.1	23.7
Pennsylvania	244.9	48.2	81.4	14.3
Total	1,024.6	102.3	242.5	39.2
Midwest				
Illinois	134.6	12.1	44.4	-0.7[1]
Indiana	62.3	-0.5[1]	19.6	0.0
Iowa	26.8	0.4	16.5	0.0
Michigan	237.6	24.1	69.4	7.1
Minnesota	106.9	1.3	16.2	3.6
Ohio	260.2	30.6	36.9	3.8
Wisconsin	54.4	3.8	23.2	-0.1[1]
Total	882.8	71.8	226.2	13.7
South				
Alabama	32.0	4.4	25.3	5.2
Arkansas	--	--	13.0	-0.4[1]
District of Columbia	--	--	--	--
Florida	46.0	13.5	9.3	6.0
Georgia	40.4	2.6	31.5	4.7
Kentucky	30.4	8.4	27.1	4.7
Louisiana	70.2	4.5	12.3	0.0
Mississippi	9.7	0.0	15.0	0.5
North Carolina	26.0	2.3	28.0	0.3
Oklahoma	10.6	0.7	32.0	4.1
South Carolina	43.4	6.4	20.0	0.2
Tennessee	59.6	-0.8[1]	16.2	1.7
Texas	99.7	0.6	20.3	-0.1[1]
Virginia	28.4	19.0	94.5	1.0
West Virginia	19.4	0.0	20.1	0.0
Total	515.8	61.6	364.6	27.9

Urban Development Action Grants: 1978-1986
Awards by Grant Type: Large and Small Cities
(in millions of dollars)

	Large Cities		Small Cities	
Region and State	Cumulative Fiscal 1978-1986	Fiscal 1986	Cumulative Fiscal 1978-1986	Fiscal 1986
West				
Alaska	--	--	--	--
Arizona	5.3	3.5	15.5	0.9
California	153.1	10.4	54.1	1.8
Colorado	16.6	0.0	3.0	0.1
Hawaii	--	--	--	--
Idaho	--	--	1.3	1.1
Kansas	2.8	0.5	11.3	0.0
Missouri	113.9	15.7	17.4	3.5
Montana	1.0	0.0	6.8	0.0
Nebraska	8.9	6.5	1.5	0.0
Nevada	--	--	--	--
New Mexico	1.3	0.0	10.8	0.0
North Dakota	--	--	8.6	0.0
Oregon	6.1	0.0	5.2	2.2
South Dakota	4.3	0.0	5.0	2.3
Utah	14.9	0.9	7.1	0.7
Washington	24.5	1.1	5.1	2.9
Wyoming	--	--	--	--
Total	352.7	38.6	152.7	15.5
Northeast	1,405.9	132.9	342.7	49.5
Midwest	882.8	71.8	226.2	13.7
Northeast and Midwest	2,288.7	204.7	568.9	63.2
South	515.8	61.6	346.6	27.9
West	352.7	38.6	152.7	15.5
South and West	868.5	100.2	499.3	43.4
U.S. Total	3,157.2	304.9	1,068.2	106.6

---

[1] 1986 totals are negative in cases where projects were terminated after data were compiled.

SOURCE: U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Urban Development Action Grants Data Book, Volume 49 (Washington, D.C., December 10, 1986), p. 18.

Urban Development Action Grants, Investment and Job Creation: 1978-1986
(in millions of dollars)

Region and State	Number of Awards	UDAG Amount	Private Investment	Jobs Created	Jobs Retained
		(millions of dollars)			
New England					
Connecticut	34	84.5	451.0	6,353	2,325
Maine	40	37.9	153.9	4,495	2,101
Massachusetts	152	278.6	1,776.0	41,691	10,570
New Hampshire	12	29.0	133.7	4,354	130
Rhode Island	15	27.0	153.7	6,190	709
Vermont	28	19.7	81.2	2,280	98
Total	281	476.7	2,749.3	65,363	15,933
Mid-Atlantic					
Delaware	17	42.4	189.4	3,961	2,856
Maryland	85	96.2	459.0	7,212	2,774
New Jersey	153	244.3	1,333.7	35,975	7,289
New York	409	524.7	3,015.0	66,063	21,186
Pennsylvania	209	318.7	1,637.1	32,935	5,116
Total	873	1,226.3	6,634.2	146,146	39,221
Midwest					
Illinois	112	172.5	1,215.0	28,462	1,924
Indiana	54	82.6	594.3	10,222	4,414
Iowa	39	43.5	241.9	5,873	3,397
Michigan	118	303.3	3,056.9	34,579	10,303
Minnesota	73	123.3	839.5	14,430	8,036
Ohio	155	270.2	1,409.1	31,192	9,974
Wisconsin	55	79.0	443.5	9,152	4,601
Total	606	1,074.4	7,800.2	133,910	42,649
South					
Alabama	30	55.6	373.6	8,344	2,779
Arkansas	11	10.3	66.5	2,193	826
District of Columbia	5	8.3	35.1	709	375
Florida	22	50.9	352.3	5,687	299
Georgia	75	67.8	604.0	11,129	1,042
Kentucky	37	62.0	367.2	12,666	2,334
Louisiana	39	80.0	507.8	10,903	1,604
Mississippi	29	25.3	169.5	4,478	192
North Carolina	49	55.3	375.0	8,700	423
Oklahoma	31	31.9	140.0	5,692	1,560
South Carolina	33	64.6	384.2	8,739	1,927
Tennessee	51	85.3	520.6	12,330	1,636
Texas	60	114.8	821.2	16,748	3,050
Virginia	23	48.8	246.0	8,357	586
West Virginia	19	40.3	195.1	5,354	382
Total	514	801.2	5,158.1	122,029	19,015

Urban Development Action Grants, Investment and Job Creation: 1978-1986 (continued)
(in millions of dollars)

Region and State	Number of Awards	UDAG Amount (millions of dollars)	Private Investment (millions of dollars)	Jobs Created	Jobs Retained
West					
Alaska	--	--	--	--	--
Arizona	20	18.4	101.6	2,861	300
California	84	199.9	1,392.8	35,710	5,530
Colorado	16	20.0	71.0	922	232
Hawaii	--	--	--	--	--
Idaho	3	1.8	6.1	220	--
Kansas	13	16.0	75.0	1,368	200
Missouri	71	129.5	637.5	15,290	2,784
Montana	6	7.3	38.5	858	356
Nebraska	8	10.4	83.6	1,369	511
Nevada	--	--	--	--	--
New Mexico	10	12.6	68.4	1,420	0
North Dakota	7	6.9	44.8	317	0
Oregon	14	18.0	77.0	886	232
South Dakota	10	9.1	54.9	859	184
Utah	13	20.0	213.0	4,889	1,988
Washington	27	29.3	195.6	4,738	420
Wyoming	--	--	--	--	--
Total	302	499.2	3,059.8	71,707	12,737
Northeast	1,154	1,703.0	9,383.5	211,509	55,154
Midwest	606	1,074.4	7,800.2	133,910	42,649
Northeast and Midwest	1,760	2,777.4	17,183.7	345,419	97,803
South	514	801.2	5,158.1	122,029	19,015
West	302	499.2	3,059.8	71,707	12,737
South and West	816	1,300.4	8,217.9	193,736	31,752
U.S. Total[1]	2,576	4,077.8	25,401.6	539,155	129,555

---

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Urban Development Action Grants Data Book, Volume 49 (Washington, D.C., December 10, 1986), p. 17.

Economic Development Administation (EDA)
Obligated Projects: Fiscal 1986
(in thousands of dollars)

Region and State	Public Works	Planning Grants	Economic Adjustment	Total[1]
New England				
Connecticut	1,500	130	--	1,630
Maine	1,000	372	1,426	2,955
Massachusetts	190	425	75	3,067
New Hampshire	--	85	--	200
Rhode Island	--	45	--	54
Vermont	1,000	170	500	1,670
Total	3,690	1,227	2,001	9,576
Mid-Atlantic				
Delaware	--	55	--	55
Maryland	1,000	135	--	1,173
New Jersey	800	232	--	1,140
New York	3,099	1,108	770	1,586
Pennsylvania	3,971	628	2,450	7,309
Total	8,870	2,158	3,220	11,263
Midwest				
Illinois	4,329	669	534	5,919
Indiana	4,137	549	1,158	5,974
Iowa	1,715	392	75	2,337
Michigan	500	994	615	4,412
Minnesota	2,723	654	350	3,727
Ohio	2,406	649	825	5,055
Wisconsin	1,974	667	--	2,832
Total	17,784	4,574	3,557	30,256
South				
Alabama	3,201	589	810	4,824
Arkansas	1,998	545	2,050	4,733
District of Columbia	--	--	--	1,714
Florida	1,463	297	663	2,562
Georgia	2,979	1,068	--	4,727
Kentucky	3,179	837	568	4,899
Louisiana	439	556	--	3,244
Mississippi	3,400	738	375	10,745
North Carolina	2,025	444	872	3,627
Oklahoma	2,862	543	405	3,966
South Carolina	3,050	664	500	4,332
Tennessee	1,096	671	905	2,820
Texas	6,622	1,163	475	1,517
Virginia	1,476	463	1,767	3,875
West Virginia	2,192	536	684	3,598
Total	34,634	9,114	10,074	61,183

Economic Development Administation (EDA)
Obligated Projects: Fiscal 1986 (continued)
(in thousands of dollars)

Region and State	Public Works	Planning Grants	Economic Adjustment	Total[1]
West				
Alaska	3,820	417	--	4,377
Arizona	883	277	--	1,290
California	4,427	1,040	--	5,866
Colorado	1,477	301	--	1,910
Hawaii	--	165	--	308
Idaho	1,733	561	500	2,494
Kansas	606	343	--	949
Missouri	2,043	742	500	3,748
Montana	1,053	410	38	1,600
Nebraska	625	264	--	1,009
Nevada	2,856	179	--	3,053
New Mexico	166	444	--	2,180
North Dakota	797	535	--	1,567
Oregon	762	817	1,634	3,350
South Dakota	533	506	500	1,598
Utah	246	310	850	1,406
Washington	3,253	888	375	4,633
Wyoming	--	77	--	77
Total	25,280	8,276	4,397	41,415
Northeast	12,830	3,385	5,221	20,839
Midwest	17,784	4,574	3,557	30,256
Northeast and Midwest	29,614	7,959	8,778	51,095
South	34,634	9,114	10,074	61,183
West	25,280	8,276	4,397	41,415
South and West	59,914	17,390	14,471	102,598
U.S. Total[2]	89,528	25,349	23,249	153,693

---

[1] Totals include research and technical assistance grants.

[2] U.S. totals do not include funds for Puerto Rico or the Territories, or those not distributed by state.

SOURCE: Staff calculations from U.S. Department of Commerce, Economic Development Administration, unpublished preliminary data, January 1987.

Small Business Administration (SBA) Program Levels: Fiscal 1986
(in millions of dollars)

	Direct Loans		Guaranteed Loans			Selected Investment Companies[1]	
Region and State	Total	General Business (7A)	Total	General Business (7A)	503	SBIC	MESBIC
New England							
Connecticut	0.55	0.00	13.00	11.18	1.70	40.32	0.03
Maine	0.14	0.00	26.54	22.80	2.42	1.31	0.12
Massachusetts	1.30	0.00	57.35	38.19	10.99	13.94	1.11
New Hampshire	0.06	0.00	32.42	26.82	4.00	1.19	0.30
Rhode Island	0.34	0.00	18.15	12.21	4.50	8.89	0.00
Vermont	0.14	0.00	26.44	24.30	1.56	0.60	0.00
Total	2.53	0.00	173.90	135.50	25.17	66.25	1.56
Mid-Atlantic							
Delaware	0.00	0.00	3.98	3.18	0.65	0.00	0.05
Maryland	1.40	0.00	16.80	13.90	2.12	5.55	0.65
New Jersey	0.40	0.00	42.61	39.92	2.17	13.24	5.90
New York	2.33	0.00	121.68	111.28	7.01	89.65	75.03
Pennsylvania	0.59	0.00	58.83	54.88	2.13	6.47	1.08
Total	4.72	0.00	243.90	223.16	14.08	114.91	82.71
Midwest							
Illinois	1.91	0.00	89.61	85.73	1.36	7.08	4.73
Indiana	0.45	0.00	44.79	33.22	8.03	17.76	0.03
Iowa	0.32	0.00	67.87	64.69	1.46	0.59	0.06
Michigan	1.13	0.00	41.13	32.26	6.36	15.70	8.34
Minnesota	0.71	0.00	40.64	31.52	4.15	11.44	0.16
Ohio	2.14	0.00	90.58	63.01	15.18	11.28	0.50
Wisconsin	0.89	0.00	101.49	83.10	10.38	9.44	0.09
Total	7.55	0.00	476.11	393.53	46.92	73.29	13.91
South							
Alabama	1.12	0.00	21.47	16.16	2.85	4.99	2.34
Arkansas	0.79	0.00	13.85	12.79	0.89	1.38	2.35
District of Columbia	0.05	0.00	3.45	1.45	0.37	0.55	0.72
Florida	0.46	0.00	42.05	40.64	0.88	12.65	3.84
Georgia	1.92	0.00	93.29	83.15	5.68	3.18	3.11
Kentucky	0.73	0.00	26.89	25.06	1.13	1.50	0.51
Louisiana	0.55	0.00	20.32	16.92	1.48	8.67	1.03
Mississippi	0.75	0.00	9.94	8.05	1.43	0.18	0.90
North Carolina	1.03	0.00	32.38	21.00	8.86	8.24	0.04
Oklahoma	0.26	0.00	33.48	31.21	1.72	2.38	0.22
South Carolina	0.74	0.00	15.58	15.11	0.90	1.01	0.21
Tennessee	0.59	0.00	40.47	38.18	1.45	14.46	0.25
Texas	3.21	0.00	182.15	167.68	10.07	45.98	11.03
Virginia	0.41	0.00	14.31	9.57	3.47	5.19	0.69
West Virginia	0.40	0.00	12.36	10.90	1.14	0.10	0.00
Total	15.43	0.00	561.99	497.87	42.32	143.38	27.24

Small Business Administration (SBA) Program Levels: Fiscal 1986 (continued)
(in millions of dollars)

Region and State	Direct Loans		Guaranteed Loans			Selected Investment Companies[1]	
	Total	General Business (7A)	Total	General Business (7A)	503	SBIC	MESBIC
West							
Alaska	0.83	0.00	51.82	51.18	0.64	0.15	0.01
Arizona	0.58	0.00	39.71	36.71	2.25	3.56	0.00
California	5.51	0.00	78.32	327.95	26.76	79.20	17.70
Colorado	1.45	0.00	43.08	40.01	2.36	7.06	0.65
Hawaii	0.10	0.00	10.50	8.97	0.70	0.13	0.31
Idaho	1.02	0.00	26.45	21.28	2.89	0.28	0.00
Kansas	0.25	0.00	64.46	59.98	2.40	0.73	0.00
Missouri	1.12	0.00	104.51	86.81	11.86	2.24	0.03
Montana	0.18	0.00	50.88	49.61	0.26	1.37	0.00
Nebraska	0.00	0.00	25.96	25.96	0.69	0.84	0.07
Nevada	0.17	0.00	16.76	9.67	4.83	1.24	0.00
New Mexico	0.41	0.00	30.44	30.44	0.00	1.21	0.17
North Dakota	0.22	0.00	11.57	11.36	0.00	0.03	0.00
Oregon	0.98	0.00	16.80	14.53	1.78	7.20	0.08
South Dakota	0.38	0.00	21.35	20.18	0.90	0.05	0.00
Utah	0.27	0.00	31.44	25.68	3.53	2.60	0.00
Washington	0.84	0.00	46.40	35.64	6.69	1.84	0.29
Wyoming	0.38	0.00	15.47	15.47	0.00	0.48	0.47
Total	14.69	0.00	685.92	871.43	68.54	110.21	19.78
Northeast	7.25	0.00	417.80	358.66	39.25	181.16	84.27
Midwest	7.55	0.00	476.11	393.53	46.92	73.29	13.91
Northeast and Midwest	14.80	0.00	893.91	752.19	86.17	254.45	98.18
South	5.43	0.00	561.99	497.87	42.32	143.38	27.24
West	14.69	0.00	685.92	871.43	68.54	110.21	19.78
South and West	20.12	0.00	1,247.91	1,369.30	110.86	253.59	47.02
U.S. Total[2]	34.92	0.00	2,141.82	2,121.49	197.03	508.04	145.20

[1] Figures for Small Business Investment Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs) are on a calendar year basis.

[2] U.S. figures do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Small Business Administration, "Program Activity by State," unpublished report, Washington, D.C., February 1987.

Section 8 Assisted Housing Occupancy: Fiscal 1986
(Total Units)[1]

Region and State	New Construction	Substantial Rehabilitation	Existing	Moderate Rehabilitation	Housing Voucher	Total
New England						
Connecticut	8,142	3,934	14,708	1,351	0	28,135
Maine	4,459	2,430	6,092	1,230	88	14,299
Massachusetts	10,498	6,787	45,420	2,783	111	65,599
New Hampshire	3,541	1,216	3,987	319	117	9,180
Rhode Island	8,885	2,493	6,212	396	0	17,986
Vermont	1,952	1,011	2,134	108	88	5,293
Total	37,477	17,871	78,553	6,187	404	140,492
Mid-Atlantic						
Delaware	2,644	386	2,695	79	25	5,829
Maryland	11,145	1,862	17,811	1,351	0	32,169
New Jersey	21,204	7,256	31,835	2,414	0	62,709
New York	42,073	27,185	102,431	6,414	481	178,584
Pennsylvania	32,107	4,302	42,301	2,668	128	81,506
Total	109,173	40,991	197,073	12,926	634	360,797
Midwest						
Illinois	30,174	5,854	26,307	1,790	0	64,125
Indiana	17,457	1,575	25,754	1,480	175	46,441
Iowa	9,416	319	11,876	855	136	22,602
Michigan	32,930	1,917	25,658	193	0	60,698
Minnesota	20,093	1,332	19,807	528	0	41,760
Ohio	30,127	6,338	63,325	3,486	26	103,302
Wisconsin	23,974	1,395	23,516	695	0	49,580
Total	164,171	18,730	196,243	9,027	337	388,508
South						
Alabama	10,731	1,057	14,237	1,393	99	27,517
Arkansas	15,309	397	16,043	89	0	21,838
District of Columbia	2,572	2,028	3,132	640	0	8,372
Florida	17,495	1,671	48,879	3,958	430	72,433
Georgia	14,969	2,768	27,469	943	0	46,149
Kentucky	14,749	1,952	17,737	1,169	106	35,713
Louisiana	8,346	507	15,284	1,192	0	25,329
Mississippi	9,392	885	13,090	991	153	24,511
North Carolina	15,914	1,599	28,721	3,251	225	49,710
Oklahoma	4,360	471	16,005	1,209	0	22,045
South Carolina	10,660	379	12,693	1,257	123	25,112
Tennessee	16,523	2,138	20,504	1,451	217	40,833
Texas	16,208	720	66,052	3,737	0	86,717
Virginia	16,182	2,255	18,583	2,244	22	39,286
West Virginia	7,919	470	18,650	246	132	27,415
Total	171,329	19,297	337,079	23,770	1,507	552,980

Section 8 Assisted Housing Occupancy: Fiscal 1986 (continued)
(Total Units)[1]

Region and State	New Construction	Substantial Rehabilitation	Existing	Moderate Rehabilitation	Housing Voucher	Total
West						
Alaska	818	0	1,748	0	0	2,566
Arizona	4,062	365	9,711	489	0	14,632
California	39,003	4,286	155,921	5,131	528	204,869
Colorado	9,194	1,217	12,353	567	301	23,622
Hawaii	2,093	8	6,339	49	113	8,602
Idaho	3,039	196	3,272	112	24	6,643
Kansas	7,605	120	4,894	331	0	12,950
Missouri	13,510	3,151	21,550	2,135	0	40,346
Montana	2,309	24	3,256	575	102	6,266
Nebraska	4,240	244	6,717	327	0	11,528
Nevada	1,655	373	3,705	123	11	5,867
New Mexico	1,607	0	6,467	373	0	8,447
North Dakota	2,683	251	3,982	319	43	7,278
Oregon	5,067	1,119	16,901	757	134	23,978
South Dakota	3,084	249	4,192	560	18	8,103
Utah	2,522	257	3,889	264	173	7,105
Washington	7,520	309	6,028	656	0	14,513
Wyoming	1,564	71	868	0	0	2,604
Total	111,575	12,240	256,493	12,777	1,447	409,919
Northeast	146,650	58,862	275,626	19,113	1,038	501,289
Midwest	164,171	18,730	196,243	9,027	337	388,508
Northeast and Midwest	310,821	77,592	471,869	28,140	1,375	889,797
South	171,329	19,297	337,079	23,770	1,507	552,980
West	111,575	12,240	256,493	12,777	1,447	409,919
South and West	282,904	31,537	593,572	36,547	2,954	962,899
U.S. Total	593,725	109,129	1,065,441	64,687	4,329	1,852,696

---

[1] Terminated projects are excluded.

SOURCE: Staff calculations from U.S. Department of Housing and Urban Development, Assisted Housing Branch, "Report on Section 8 Occupancy" (Washington, D.C., January 8, 1987).

Public Housing Authority, Inventory and Funding: Fiscal 1985

Region and State	Dwelling Units	Program Expenditures (in millions of dollars) Operating Subsidy	Program Expenditures (in millions of dollars) Modernization Funding
New England			
Connecticut	19,147	27.1	15.9
Maine	4,038	2.8	2.9
Massachusetts	35,209	46.5	47.0
New Hampshire	4,023	1.4	2.3
Rhode Island	9,854	6.2	9.5
Vermont	1,779	0.9	0.7
Total	74,050	84.9	78.3
Mid-Atlantic			
Delaware	3,150	4.0	5.0
Maryland	25,520	36.4	24.8
New Jersey	47,575	72.2	75.2
New York	184,648	231.3	150.4
Pennsylvania	78,098	107.0	44.1
Total	338,991	450.9	299.5
Midwest			
Illinois	76,874	120.9	26.6
Indiana	17,183	15.1	12.0
Iowa	4,244	0.1	0.6
Michigan	28,269	24.7	16.6
Minnesota	21,192	9.0	7.7
Ohio	53,009	62.7	28.0
Wisconsin	13,036	3.7	8.2
Total	213,807	236.2	99.7
South			
Alabama	42,060	29.7	18.6
Arkansas	14,884	6.3	4.9
District of Columbia	11,622	30.4	2.8
Florida	41,732	33.0	14.0
Georgia	56,209	41.6	24.3
Kentucky	25,087	15.7	10.9
Louisiana	30,983	23.1	12.1
Mississippi	12,145	4.2	7.5
North Carolina	37,743	25.3	14.6
Oklahoma	12,775	5.3	10.2
South Carolina	15,633	4.9	8.5
Tennessee	40,666	30.4	19.5
Texas	62,174	33.6	46.5
Virginia	22,134	19.9	29.6
West Virginia	7,036	29.7	9.9
Total	432,883	333.1	233.9

Public Housing Authority, Inventory and Funding: Fiscal 1985 (continued)

Region and State	Dwelling Units	Program Expenditures (in millions of dollars) Operating Subsidy	Modernization Funding
West			
Alaska	NA	NA	2.1
Arizona	5,197	5.4	1.1
California	41,840	29.6	29.4
Colorado	8,846	4.4	4.5
Hawaii	5,123	0.8	2.3
Idaho	2,141	1.0	0.3
Kansas	8,870	3.1	2.3
Missouri	20,805	15.7	5.7
Montana	1,801	0.7	1.7
Nebraska	7,491	2.8	2.3
Nevada	4,228	3.4	1.3
New Mexico	4,350	2.2	5.0
North Dakota	1,948	0.4	0.7
Oregon	4,234	3.6	2.9
South Dakota	1,554	0.3	1.7
Utah	1,795	1.0	0.2
Washington	16,531	6.3	2.8
Wyoming	449	0.1	43.0
Total	137,203	80.8	109.3
Northeast	413,041	535.8	377.8
Midwest	213,807	236.2	99.7
Northeast and Midwest	626,848	772.0	477.5
South	432,883	333.1	233.9
West	137,203	80.8	109.3
South and West	570,086	413.9	343.2
U.S. Total[1]	1,196,934	1,185.9	820.7

[1] U.S. totals do not include funds for Puerto Rico or the Territories.

SOURCES: U.S. Department of Housing and Urban Development, Office of Public Housing, "Fiscal Data Survey for FY 85" (Washington, D.C., December 1986); and Office of Policy Development and Research, "Comprehensive Improvement Assistance Program: Loan Authority Approved for FY 85" (Washington, D.C., November 26, 1986).

Trends in Rental Rehabilitation Program: Fiscal Years 1984-1986
(in thousands of dollars)

Region and State	Entitlement Cities Fiscal 1984	Entitlement Cities Fiscal 1985	Entitlement Cities Fiscal 1986	Entitlement Cities Cumulative Fiscal 1984-1986	States Fiscal 1984	States Fiscal 1985	States Fiscal 1986	States Cumulative Fiscal 1984-1986
New England								
Connecticut	1,206	1,186	503	2,895	853	847	476	2,176
Maine	124	123	59	306	490	501	241	1,232
Massachusetts	3,124	3,078	1,424	7,626	1,887	1,869	959	4,715
New Hampshire	180	177	58	415	276	287	165	728
Rhode Island	451	446	214	1,111	452	450	217	1,119
Vermont	--	--	--	--	222	228	110	560
Total	5,085	5,010	2,258	12,353	4,180	4,182	2,168	10,530
Mid-Atlantic								
Delaware	247	242	116	605	34	41	200	275
Maryland	2,242	2,205	1,057	5,504	353	361	179	893
New Jersey	4,383	4,556	2,048	10,987	1,152	1,007	580	2,739
New York	20,049	19,741	9,475	49,265	1,654	1,998	931	4,583
Pennsylvania	5,854	5,805	2,534	14,193	1,305	1,747	924	3,976
Total	32,775	32,549	15,230	80,554	4,498	5,154	2,814	12,466
Midwest								
Illinois	7,288	7,153	3,258	17,699	1,406	1,557	937	3,900
Indiana	1,456	1,383	667	3,506	913	1,066	513	2,492
Iowa	522	513	219	1,254	645	699	365	1,709
Michigan	3,274	3,293	1,453	8,020	1,543	1,557	882	3,982
Minnesota	1,066	1,100	537	2,703	779	695	328	1,802
Ohio	4,650	4,584	2,151	11,385	1,849	1,920	984	4,753
Wisconsin	1,277	1,256	543	3,076	997	984	536	2,517
Total	19,553	19,282	8,828	47,643	8,132	8,478	4,545	21,155
South								
Alabama	999	1,011	482	2,492	934	949	449	2,332
Arkansas	246	244	119	609	754	755	354	1,863
District of Columbia	920	932	443	2,295	--	--	--	--
Florida	4,789	4,892	2,243	11,924	1,469	1,394	772	3,635
Georgia	1,670	1,688	808	4,166	1,352	1,420	648	3,420
Kentucky	708	719	342	1,769	853	914	410	2,177
Louisiana	1,919	1,900	925	4,744	736	786	354	1,876
Mississippi	174	179	84	437	837	851	403	2,091
North Carolina	982	997	411	2,390	1,353	1,430	714	3,497
Oklahoma	716	735	315	1,766	766	756	399	1,921
South Carolina	471	476	226	1,173	839	897	405	2,141
Tennessee	1,411	1,435	681	3,527	839	896	403	2,138
Texas	5,646	5,681	2,448	13,775	2,425	2,450	1,439	6,314
Virginia	1,729	7,768	642	4,139	806	885	579	2,270
West Virginia	144	146	69	359	491	502	237	1,230
Total	22,524	22,803	10,238	55,564	14,454	14,885	7,566	36,905

Trends in Rental Rehabilitation Program: Fiscal Years 1984-1986 (continued)
(in thousands of dollars)

Region and State	Entitlement Cities Fiscal 1984	Fiscal 1985	Fiscal 1986	Cumulative Fiscal 1984-1986	States Fiscal 1984	Fiscal 1985	Fiscal 1986	Cumulative Fiscal 1984-1986
West								
Alaska	97	101	47	245	61	62	29	152
Arizona	1,221	1,185	435	2,841	227	295	287	809
California	16,886	17,391	7,478	41,755	2,737	2,200	1,933	6,870
Colorado	1,167	1,247	533	2,947	571	540	304	1,415
Hawaii	561	568	270	1,399	80	48	39	167
Idaho	72	74	35	181	289	267	139	695
Kansas	501	511	711	1,723	582	562	359	1,503
Missouri	1,782	1,810	827	4,419	812	820	422	2,054
Montana	61	61	29	151	318	295	154	767
Nebraska	405	409	196	1,010	267	289	127	683
Nevada	446	463	216	1,125	85	76	400	561
New Mexico	254	263	123	640	384	386	184	954
North Dakota	61	60	29	150	166	179	810	1,155
Oregon	1,068	967	549	2,584	577	641	279	1,497
South Dakota	62	63	30	155	208	210	100	518
Utah	460	495	153	1,108	202	199	166	567
Washington	1,626	1,663	820	4,109	869	784	435	2,088
Wyoming	--	--	--	--	172	164	83	419
Total	26,730	27,331	12,481	66,542	8,607	8,017	6,250	22,874
Northeast	37,860	37,559	17,488	92,907	8,678	9,336	4,982	22,996
Midwest	19,533	19,282	8,828	47,643	8,132	8,478	4,545	21,155
Northeast and Midwest	57,393	56,841	26,316	140,550	16,810	17,814	9,527	44,151
South	22,524	22,803	10,238	55,565	14,454	14,885	7,566	36,905
West	26,730	27,331	12,481	66,542	8,607	8,017	6,250	22,874
South and West	49,254	50,134	22,719	122,107	23,061	22,902	13,816	59,779
U.S. Total[1]	106,647	106,975	49,035	262,657	39,871	40,716	23,343	103,930

[1] U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Housing and Urban Development, Office of Community Planning and Development, Federal Register, Part IV, November 1, 1984, p. 44072; Part VI, June 3, 1986 p. 20228; and from HUD's Rental Rehabilitation Division, "Rental Rehabilitation Program, FY 1986 Formula Allocations," unpublished data run, December 1986.

Trends in Housing Development Grant Programs: Fiscal Years 1984-1986
(in thousands of dollars)

Region and State	Amount Fiscal 1984	Fiscal 1985	Fiscal 1986	Cumulative Fiscal 1984-1986	Total Units Fiscal 1984	Fiscal 1985	Fiscal 1986	Cumulative Fiscal 1984-1986
New England								
Connecticut	6,100	861	--	6,961	298	42	--	340
Maine	7,022	--	--	7,022	199	--	--	199
Massachusetts	13,506	9,372	10,597	33,475	460	403	595	1,458
New Hampshire	--	--	7,648	7,648	--	--	242	242
Rhode Island	5,953	--	1,100	7,053	247	--	36	283
Vermont	3,800	--	--	3,800	160	--	--	160
Total	36,381	10,233	19,345	65,959	1,364	445	873	2,682
Mid-Atlantic								
Delaware	1,050	--	--	1,050	44	--	--	44
Maryland	6,405	--	516	6,921	266	--	48	314
New Jersey	7,100	4,253	5,507	16,860	201	163	225	589
New York	43,078	4,418	7,652	55,148	1,806	192	336	2,334
Pennsylvania	19,067	--	--	19,067	913	--	--	913
Total	76,700	8,671	13,675	99,047	3,230	355	609	4,195
Midwest								
Illinois	22,910	2,056	5,605	30,571	771	163	223	1,157
Indiana	--	--	--	--	--	--	--	--
Iowa	3,500	730	--	4,230	142	36	--	178
Michigan	12,892	3,368	--	16,260	1,075	211	--	1,286
Minnesota	2,652	550	600	3,802	204	24	23	251
Ohio	14,523	--	2,173	16,695	658	--	118	776
Wisconsin	3,509	--	2,493	6,002	192	--	123	315
Total	59,986	6,704	10,871	77,560	3,042	434	487	3,963
South								
Alabama	4,237	1,441	--	5,678	284	128	--	412
Arkansas	--	--	--	--	--	--	--	--
District of Columbia	4,141	--	1,982	6,123	250	--	100	350
Florida	20,324	--	2,824	23,148	1,226	--	170	1,396
Georgia	12,458	1,450	5,444	19,352	660	125	272	1,057
Kentucky	1,430	--	--	1,430	60	--	--	60
Louisiana	1,882	--	--	1,882	121	--	--	121
Mississippi	550	--	--	550	48	--	--	48
North Carolina	--	--	--	--	--	--	--	--
Oklahoma	1,917	--	--	1,917	112	--	--	112
South Carolina	446	--	--	446	240	--	--	240
Tennessee	--	--	--	--	--	--	--	--
Texas	1,100	400	693	2,193	88	40	52	180
Virginia	4,100	--	--	4,100	200	--	--	200
West Virginia	--	--	--	--	--	--	--	--
Total	52,585	3,291	10,943	66,819	3,289	293	594	4,176

Trends in Housing Development Grant Programs: Fiscal Years 1984-1986 (continued)

(in thousands of dollars)

Region and State	Amount				Total Units			
	Fiscal 1984	Fiscal 1985	Fiscal 1986	Cumulative Fiscal 1984-1986	Fiscal 1984	Fiscal 1985	Fiscal 1986	Cumulative Fiscal 1984-1986
West								
Alaska	--	--	--	--	--	--	--	--
Arizona	--	--	2,128	2,128	--	--	212	212
California	36,094	--	16,815	52,909	2,330	--	1,109	3,439
Colorado	5,752	--	--	5,752	331	--	--	331
Hawaii	--	--	--	--	--	--	--	--
Idaho	--	--	--	--	--	--	--	--
Kansas	--	--	--	--	--	--	--	--
Missouri	5,612	--	750	6,362	292	--	40	332
Montana	--	--	--	--	--	--	--	--
Nebraska	2,640	--	1,010	3,650	130	--	66	196
Nevada	--	--	--	--	--	--	--	--
New Mexico	--	--	--	--	--	--	--	--
North Dakota	--	--	--	--	--	--	--	--
Oregon	--	--	--	--	--	--	--	--
South Dakota	628	--	--	628	46	--	--	46
Utah	7,058	--	846	7,904	360	--	60	420
Washington	792	703	--	1,495	28	98	--	126
Wyoming	--	--	--	--	--	--	--	--
Total or Average	58,576	703	21,549	80,828	3,517	98	1,487	5,102
Northeast	113,081	18,904	33,020	165,006	4,594	800	1,482	6,876
Midwest	59,986	6,704	10,871	77,559	3,042	434	487	3,963
Northeast and Midwest	173,067	25,608	43,891	242,565	7,636	1,234	1,969	10,839
South	52,585	3,291	10,943	66,819	3,289	293	594	4,176
West	58,576	703	21,549	80,828	3,517	98	1,487	5,102
South and **West**	111,161	3,994	32,492	147,647	6,806	391	2,081	9,278
U.S. Total[1]	284,228	29,602	76,383	390,212	14,442	1,625	4,050	20,117

---

[1] U.S. totals do not include funds for Puerto Rico or the Territories.

SOURCE: U.S. Department of Housing and Urban Development, Office of Public Affairs, News Releases, 84-259; 85-115, July 10, 1985; 86-104, September 26, 1986.

IDBs and Other Private Tax-Exempt Bonds: Activity by State[1]

(in millions of dollars)

			1985				Volume Caps		
					IDB				
Region and State	1983 Total	1984 Total	Total	Non-IDBs[2]	Small Issue[3]	Other[4]	1987 Limit	1988 Calculated Limit[5]	1985 State Activity as Percent of 1987 Limit
New England									
Connecticut	313	480	2,007	368	284	1,354	239	159	840
Maine	49	77	492	179	96	217	250	150	197
Massachusetts	1,556	1,375	2,777	1,889	586	454	437	292	635
New Hampshire	246	296	635	403	86	148	250	150	254
Rhode Island	105	430	286	206	73	6	250	150	114
Vermont	106	118	301	228	39	35	250	150	120
Total	2,375	2,776	6,498	3,273	1,164	2,214	1,676	1,051	NA
Mid-Atlantic									
Delaware	116	243	972	1,003	162	107	250	150	389
Maryland	960	1,266	2,457	1,004	424	1,029	335	223	733
New Jersey	1,426	1,912	2,406	1,112	886	406	572	381	421
New York	1,722	3,436	6,932	3,450	987	2,496	1,333	889	520
Pennsylvania	2,320	3,802	5,922	3,278	1,118	1,528	892	594	664
Total	6,544	10,659	18,689	9,847	3,577	5,566	3,382	2,237	NA
Midwest									
Illinois	1,706	2,320	5,807	2,294	864	2,650	866	578	670
Indiana	1,054	940	2,304	713	509	1,082	413	275	558
Iowa	317	307	660	350	194	116	250	150	264
Michigan	750	1,601	2,161	567	862	732	686	457	315
Minnesota	1,253	1,213	2,450	655	448	1,348	316	211	775
Ohio	1,362	1,196	2,637	1,020	864	752	806	538	327
Wisconsin	298	539	1,155	577	404	174	359	239	321
Total	6,740	8,116	17,174	6,176	4,145	6,854	3,696	2,448	NA
South									
Alabama	667	1,046	1,394	632	337	425	304	203	459
Arkansas	230	209	695	396	78	222	250	150	278
District of Columbia	--	--	--	--	--	--	--	--	--
Florida	2,388	3,746	4,964	1,808	589	2,567	876	584	567
Georgia	1,074	2,537	2,976	450	618	1,907	458	305	650
Kentucky	596	669	1,181	498	298	385	280	186	421
Louisiana	1,035	1,528	1,692	935	258	499	338	225	501
Mississippi	234	407	785	339	170	275	250	150	314
North Carolina	318	771	1,369	1,060	242	489	475	317	288
Oklahoma	394	363	644	195	118	331	250	165	258
South Carolina	483	847	700	306	221	172	253	169	277
Tennessee	882	1,281	2,746	661	426	1,660	360	240	763
Texas	3,367	4,356	5,860	3,305	651	1,905	1,251	834	468
Virginia	1,442	1,849	2,570	899	597	1,074	434	289	592
West Virginia	211	192	558	378	118	62	250	150	223
Total	13,321	19,801	28,134	11,862	4,721	11,973	6,029	3,967	NA

IDBs and Other Private Tax-Exempt Bonds: Activity by State[1] (continued)

(in millions of dollars)

			1985				Volume Caps		1985 State Activity as Percent of 1987 Limit
					IDB			1988	
Region and State	1983 Total	1984 Total	Total	Non-IDBs[2]	Small Issue[3]	Other[4]	1987 Limit	Calculated Limit[5]	
West									
Alaska	239	119	506	290	160	56	250	150	202
Arizona	1,467	1,360	1,811	786	221	803	250	166	724
California	3,718	3,899	13,177	5,409	600	7,171	2,024	1,349	651
Colorado	686	797	2,335	998	191	1,145	245	163	953
Hawaii	77	159	405	100	--	304	250	150	162
Idaho	74	72	132	88	27	17	250	150	52
Kansas	486	468	809	247	166	396	250	150	323
Missouri	1,056	1,284	2,089	784	533	772	380	253	550
Montana	213	195	129	81	36	12	250	150	52
Nebraska	126	294	637	473	92	71	250	150	255
Nevada	187	165	289	114	30	145	250	150	116
New Mexico	246	174	402	274	40	88	250	150	161
North Dakota	123	232	228	171	26	30	250	150	91
Oregon	121	302	721	559	72	90	250	150	288
South Dakota	163	115	394	342	38	13	250	150	262
Utah	427	619	605	159	164	282	250	150	242
Washington	241	492	879	301	164	415	335	223	394
Wyoming	237	365	185	11	15	60	250	150	74
Total	9,887	11,111	25,733	11,187	2,575	11,870	6,484	4,104	NA
Northeast	8,919	13,435	25,187	13,120	4,741	7,780	5,058	3,288	NA
Midwest	6,740	8,116	17,174	6,176	4,145	6,854	3,696	2,448	NA
Northeast and Midwest	15,659	21,551	42,361	19,296	8,886	14,634	8,754	5,736	NA
South	13,321	19,801	28,134	11,862	4,721	11,973	6,029	3,967	NA
West	9,887	11,111	25,733	11,187	2,575	11,870	6,484	4,104	NA
South and West	23,208	30,912	53,867	23,049	7,296	23,843	12,513	8,071	NA
U.S. Total	38,867	52,463	96,228	42,345	16,182	38,477	21,267	13,807	NA

---

[1] Figures may not add due to rounding.

[2] Student loan bonds ($2.9 billion nationally); exempt entity bonds, principally hospitals and educational facilities; ($26 billion nationally), and mortage subsidy bonds ($13 billion nationally).

[3] Includes IDBs for industrial parks.

[4] For multi-family rental housing ($23.5 billion nationally); airports and docks ($3.45 billion); sewage and waste disposal ($5 billion); pollution control ($5.4 billion); sports and convention facilities ($508 million); miscellaneous ($1.1 billion).

[5] Calculated using 1986 population figures and statutory limitations of the greater of $150 million or $50 per person.

SOURCES: Staff calculations from the Department of the Treasury, Office of Tax Analysis, *Private Activity Tax-Exempt Bond Volume in 1985: Preliminary Data* (Washington, D.C., July 1986), pp. 6, 10-11; and Federal Funds Information for States, *State Population Data for 1986: State-Private Activity Bond Limitations for 1987*, Issue Brief 86-20 (Washington, D.C., December 1986), p. 8; Phil Clark and Tom Neubig, "Private Activity Tax Exempt Bonds," *Internal Revenue Service: Statistics of Income Bulletin*, Summer 1984, p. 107.

Economic Activity Generated by the Historic (25 Percent) Rehabilitation Tax Credit

Region and State	Number of Projects Fiscal 1982-1985	Expenditure Fiscal 1982-1985 (in millions of dollars)	Number of Projects Fiscal 1985	Expenditure Fiscal 1985 (in millions of dollars)	Number of Housing Units Rehabilitated Fiscal 1982-1985	Number of Person Years of Work Created Fiscal 1982-1985
New England						
Connecticut	371	212.7	190	32.6	2,318	8,610
Maine	132	89.4	47	42.1	870	1,115
Massachusetts	586	467.8	232	143.3	5,830	20,345
New Hampshire	57	35.0	35	14.5	373	1,265
Rhode Island	226	119.1	62	55.2	955	4,880
Vermont	96	40.2	40	19.8	294	1,440
Total	1,468	964.2	606	307.5	10,640	37,655
Mid-Atlantic						
Delaware	83	26.3	60	21.8	200	1,130
Maryland	588	287.4	242	177.1	2,915	11,500
New Jersey	363	303.9	141	67.3	1,165	12,150
New York	805	509.6	360	146.4	5,425	19,870
Pennsylvania	871	1,035.0	386	414.3	6,225	45,025
Total	2,710	2,162.2	1,189	826.9	15,930	89,675
Midwest						
Illinois	302	524.0	133	98.9	4,977	20,695
Indiana	193	116.3	56	34.3	755	4,360
Iowa	86	66.5	35	34.0	230	2,130
Michigan	155	205.1	23	43.4	1,284	7,280
Minnesota	173	197.8	55	35.1	1,122	7,020
Ohio	518	441.5	145	188.5	3,100	17,880
Wisconsin	170	83.1	61	55.8	820	2,950
Total	1,597	1,634.3	508	490.0	12,288	62,315
South						
Alabama	198	65.3	60	20.1	364	2,580
Arkansas	71	24.4	23	8.0	105	950
District of Columbia	204	200.4	59	N/A	1,129	5,610
Florida	115	113.1	29	50.5	293	4,465
Georgia	517	175.7	132	70.0	1,941	6,940
Kentucky	412	180.0	87	48.4	1,652	6,930
Louisiana	453	303.2	213	143.3	1,450	11,520
Mississippi	81	22.9	28	8.8	183	860
North Carolina	304	111.1	62	30.6	1,039	4,275
Oklahoma	128	82.2	64	40.1	246	3,275
South Carolina	263	100.3	60	30.2	1,055	3,860
Tennessee	191	141.2	36	11.5	908	6,120
Texas	262	385.6	92	126.4	460	16,000
Virginia	427	184.5	251	N/A	1,927	6,915
West Virginia	54	19.4	13	0.0	65	760
Total	3,700	2,109.3	1,209	587.9	12,817	81,060

Economic Activity Generated by the Historic (25 Percent) Rehabilitation Tax Credit (continued)

Region and State	Number of Projects Fiscal 1982-1985	Expenditure Fiscal 1982-1985 (in millions of dollars)	Number of Projects Fiscal 1985	Expenditure Fiscal 1985 (in millions of dollars)	Number of Housing Units Rehabilitated Fiscal 1982-1985	Number of Person Years of Work Created Fiscal 1982-1985
West						
Alaska	6	6.9	2	6.0	3	138
Arizona	70	42.8	26	18.7	570	1,475
California	210	494.9	88	321.6	1,335	18,065
Colorado	242	140.9	32	38.8	680	5,140
Hawaii	22	5.1	10	0.0	2	150
Idaho	47	13.8	12	0.6	70	425
Kansas	33	24.5	12	0.9	95	615
Missouri	849	652.6	244	208.9	4,037	27,735
Montana	72	25.0	30	10.7	330	655
Nebraska	98	78.6	55	47.9	582	2,440
Nevada	21	6.0	16	4.5	23	165
New Mexico	100	47.4	38	21.0	62	1,585
North Dakota	35	22.8	11	7.9	572	660
Oregon	110	138.1	26	78.0	964	5,310
South Dakota	73	28.4	48	17.4	485	780
Utah	80	42.9	26	13.4	44	1,650
Washington	91	119.4	23	30.8	798	4,000
Wyoming	45	17.0	29	8.5	5	490
Total	2,204	1,907.1	728	835.6	10,657	71,478
Northeast	4,178	3,126.4	1,795	1,134.4	26,570	127,330
Midwest	1,597	1,634.3	508	490.0	12,288	62,315
Northeast and Midwest	5,775	4,760.7	2,303	1,624.4	38,858	189,645
South	3,700	2,109.3	1,209	587.9	12,817	81,060
West	2,204	1,907.1	728	835.6	10,657	71,478
South and West	5,904	4,016.4	1,937	1,423.5	23,474	152,538
U.S. Total	11,679	8,777.1	4,240	3,047.9	62,332	342,183

SOURCE: Staff calculations from National Trust for Historic Preservation, PRIME database, October 1985, and National Tust for Historic Preservation, *Policy Research Report*, "Ranking of States by Historic Rehabilitation Tax Credit Activity," Tables 1 and 2, May 1986.

SECTION TWO: HUMAN RESOURCES

The president's budget for employment and training and education programs reflects little of the increased attention being paid to issues of work force preparedness for international economic competition. In employment and training, the request calls for level (assuming proposed rescissions) or reduced funding for existing programs; the president plans to propose new designs for dislocated workers and disadvantaged youth programs that would provide small budget increases. In education, the president proposes to tighten eligibility and reduce or eliminate some direct student aid programs for postsecondary education, while shifting much of the federal loan investment to a recently enacted income-conditioned program. Federal funds for vocational education would be eliminated. Basic skills would receive a small boost, however, with modest increases for Chapter I compensatory education and adult literacy programs. In both employment and training and education, some administration initiatives repackage proposals previously rejected by Congress.

Education and training resources are particularly important to Northeastern and Midwestern states, whose history of investment in education has produced the economic asset of a skilled and adaptable work force. States in the region spend on average 31 percent more per pupil than other parts of the country. Taken as a whole, the administration's funding cuts and program changes would weaken the very education and training tools that individuals and communities need to help them adjust to shifting labor market demands in an increasingly competitive world economy.

The president proposes spending $4.4 billion for employment and training in fiscal 1988, including $3.3 billion for programs currently authorized under the Job Training Partnership Act (JTPA). The total also includes $1.1 billion for redesigned JTPA programs, which will be transmitted later. However, the president proposes to rescind $322 million of the $3.7 billion Congress appropriated for JTPA for fiscal 1987.

The administration has requested $13.9 billion for education in fiscal 1988, $5.3 billion below the 1987 appropriation level. Rescissions of $2.3 billion for fiscal 1987 also are proposed.

A. Employment and Training

The president's budget for the core employment and training program for the disadvantaged -- Title IIA of JTPA -- requests $1.783 billion for the program year beginning July 1, 1988. A rescission of $57 million for fiscal 1987 would set current funding also at $1.783 billion, the same level that existed for fiscal 1986 after the Gramm-Rudman-Hollings sequestration order took effect last March.

Title IIA funds are distributed by formula to local areas nationwide, where their use is determined jointly by Private Industry Councils and local elected officials. The program provides for a variety of job search, skill training, and basic education activities for disadvantaged adults and youth.

BUDGET SUMMARY
(in millions of dollars)

	1981	1986	1987	1988	Percent Change 1987-1988 Nominal	Percent Change 1987-1988 Adjusted for Inflation
			Employment and Training			
Total Employment and Training						
Budget Authority	NA[1]	4,125	4,331	3,778	-12.76	-15.72
Outlays	NA[1]	4,498	4,229	3,953	-6.52	-9.69
Training for the Disadvantaged						
Budget Authority	NA[1]	1,783	1,840[2]	1,783	-3.09	-6.37
Outlays	NA[1]	1,911	1,848	1,800	-2.59	-5.89
Summer Youth Employment						
Budget Authority	839	636	750[3]	650[4]	-13.33	-16.26
Outlays	769	746	684	645	-5.70	-8.89
Title III Assistance to Dislocated Workers						
Budget Authority	NA[5]	96	200[6]	0[7]	-100.00	-100.00
Outlays	NA[5]	188	177	83	-53.10	-54.69
Job Corps						
Budget Authority	561	613	656	652	-0.60	-3.97
Outlays	540	596	625	649	3.84	0.33
Employment Service						
Budget Authority	799	794	782[8]	693	-11.38	-14.38
Outlays	781	830	785	765	-2.54	-5.84
Work Incentive Program						
Budget Authority	365	203	103	0	-100.00	-100.00
Outlays	381	227	110	11	-90.00	-90.34

---

[1] Funding figures for 1981 are non-comparable because of major changes in program design. The predecessor CETA program had $3.9 billion in budget authority in 1981, but included money for stipends, allowances, and wages in work experience programs.

[2] The administration is requesting a rescission of $57 million of this amount.

[3] The administration is requesting a rescission of $100 million of this amount.

[4] The administration is proposing a new program design with an additional $150 million of funding to be transmitted later.

[5] This program did not exist in 1981.

[6] The administration is requesting a rescission of $175 million of this amount.

[7] The administration is proposing a new program consolidating Title III and TAA to be funded at $980 million.

[8] The administration is requesting a negative supplemental of $90 million of this amount.

BUDGET SUMMARY
(in millions of dollars)
(continued)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Unemployment Compensation						
Unemployment Compensation						
Budget Authority	19,048	26,073	25,600	24,200	-5.46	-8.67
Outlays	19,664	21,819	20,280	22,182	9.37	5.68
Education						
Total Department of Education						
Budget Authority	14,800	17,939	19,530[9]	14,050	-28.05	-30.49
Outlays	15,900	17,410	16,534	14,542	-12.04	-15.02
Education for Disadvantaged Children						
Chapter I						
Budget Authority	3,112	3,530	3,944	4,144	5.07	1.52
Outlays	3,354	3,405	3,108	3,953	27.18	22.89
Chapter II Block Grants and Special Programs						
Budget Authority	614	675	884	784	-11.31	-14.31
Outlays	735	619	671	887	32.19	27.72
Vocational Education						
Budget Authority	682	813	882[10]	0	-100.00	-100.00
Outlays	NA	930	941	728	-22.63	-25.25

---

[9] The administation is requesting rescissions totalling $2.477 billion of this amount.

[10] The administration is requesting a rescission of $432 million of this amount and $9 million in outlays.

BUDGET SUMMARY
(in millions of dollars)
(continued)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Adult Education						
Budget Authority	100	98	106	130	22.64	18.49
Outlays	NA	104	113	90	-20.35	-23.05
Special Education						
Budget Authority	1,025	1,350	1,742[11]	1,488	-14.58	-17.47
Outlays	1,035	1,628	1,440[12]	1,528[13]	6.11	3.00
Bilingual Education						
Budget Authority	161	139	143	143	0.00	-3.38
Outlays	173	74	161	141	-12.42	-15.38
Impact Aid						
Budget Authority	662	683	718[14]	548	-23.67	-26.26
Outlays	697	684	803	581	-27.64	-30.09
Guaranteed Student Loans						
Budget Authority	2,535	3,266	3,004[15]	1,177	-60.81	-62.14
Outlays	2,259	3,323	2,223	1,782	-19.83	-22.55
Student Financial Assistance						
Budget Authority	NA	4,823	5,196[16]	3,336	-35.79	-37.97
Outlays	NA	4,585	5,029	3,687	-26.68	-29.16

---

[11] The administration is requesting a rescission of $289 million of this amount.
[12] The administration is requesting a rescission of $11 million of this amount.
[13] The administration is requesting a rescission of $210 million of this amount.
[14] The administration is requesting a rescission of $18 million of this amount.
[15] The administration is requesting a rescission of $287 million of this amount.
[16] The administration is requesting a rescission of $982 million of this amount.

States in the Northeast and Midwest receive approximately 45 percent of Title IIA funds, and have used them in programs to educate dropouts, find employment for welfare recipients, and train the unemployed for jobs. (See the table at the end of this section.)

For Title IIB -- the JTPA summer jobs program for disadvantaged youth -- the president's budget proposes $650 million in fiscal 1988 for programs in the summer of 1989 and a rescission of $100 million in fiscal 1987 to bring funds for the summer of 1988 down to the $650 million level. These figures compare with $636 million in fiscal 1986 money for the summer of 1987. Also, the budget promises new legislation to amend Title IIB to target funds more directly to youth in families receiving Aid to Families with Dependent Children (AFDC) and to allow local officials the options of operating a year-round program, a summer program, or both. The new program would be funded at $800 million, which includes the $650 million requested for the existing Title IIB program and $150 million proposed for later transmittal.

In a related request, the administration once again is proposing no funds for the Work Incentive Program (WIN), which provides employment and training services for AFDC recipients who are "expected to work." For fiscal 1987, Congress appropriated $110 million to fund this program for three-quarters of the year.

The administration repeatedly has sought to eliminate WIN, but Congress has rejected the proposal each time. Although not a large program, WIN has been important to states in recent years because of the authority it provides for various experiments that have been the basis of state initiatives to train and employ welfare recipients, such as the widely recognized Massachusetts ET Choices program. It is questionable whether these state programs would be maintained at their present level if WIN is eliminated.

This year, the effort to repeal WIN comes in a somewhat different guise than previous attempts, because of its seeming relationship to the new AFDC-youth initiative. This proposal addresses two perceived problems with existing Title IIB summer youth jobs: the allocation of funds and the program design. First, the allocation of funds has been unsatisfactory since central cities suffered reductions from pre-JTPA levels. This situation prompted Congress to initiate supplemental appropriations of $100 million each for the summers of 1984 and 1985. For 1986, Congress authorized the Secretary of Labor to take administrative actions to correct the shortfall in needy jurisdictions. Last year, the administration sought formula changes to give the Secretary of Labor more discretion in targeting funds to areas "with large concentrations of disadvantaged youth," but Congress rejected this approach. This year's proposal, by focusing on AFDC youth, appears to involve less discretion for the Secretary and more specificity in targeting funds on need.

The second problem addressed by the president's proposal is the dearth of year-round services, including remedial education and training, for disadvantaged youth. The previous Title IIB program was limited to summer jobs. In last year's JTPA amendments, Congress took steps to improve the program by mandating that remedial education be included in the summer program. In many areas, this effort was under way last summer, and more emphasis on education can be expected in future summers. However, year-round programs currently can be mounted only by linking the summer program with JTPA's Title IIA, which can be difficult administratively. The administration's proposal would give localities the option of operating year-round programs out of the present "summer only" pot of funds. However, since federally supported summer jobs often are the only source of employment for disadvantaged youth, the exercise of the year-round option presumably would reduce the number of jobs available for this population.

For JTPA's Title III -- reemployment activities for dislocated workers -- the administration's budget proposes increased funding and a merging with the Trade Adjustment Assistance (TAA) program. Both programs have been of special interest to the Northeast-Midwest region because job losses in traditional industries, technological changes in the workplace, and the farm crisis have forced many persons with stable employment histories out of work. Title III has been important because it has helped states create the capacity to respond to dislocation on an ongoing basis. (See the table on dislocated workers at the end of this section.) Under the administration's proposal, the existing TAA and JTPA efforts would be replaced by a single program of Worker Adjustment Assistance that would offer services ranging from short-term counseling and job-search assistance to more intensive activities such as basic education, literacy, and job-skill training. The new program would provide no special unemployment benefits such as those offered by the present TAA program, but instead would rely on the unemployment insurance (UI) system for workers' support while they receive services. This is the same approach to income maintenance currently used in Title III, although the duration of UI (generally 26 weeks) often proves too short a time for addressing substantive retraining needs of persons with obsolete skills.

The new Worker Adjustment Assistance program would be funded at $980 million for fiscal 1988 and would operate on a fiscal year basis, in contrast to the July-June program year of JTPA. To obtain part of this funding level, the budget proposes no new funds for Title III or TAA (currently funded at $144 million), and a rescission of $175 million of the $200 million that would be available for Title III starting this July. This action, if accepted by Congress, would leave $25 million in Title III for a transition to the new program beginning in October.

Along with the rescission of Title III funds, the administration is requesting that the formula for Title III be discontinued and funds be distributed at the Secretary's discretion. Currently, 75 percent of Title III funds go to states by formula, with Northeast-Midwest states receiving close to half the total. The remainder is distributed at the Secretary's discretion. A small portion of current TAA funds also is discretionary, while the bulk is distributed as benefit entitlements. The administration argues that the Title III formula spreads funds over too many jurisdictions, some of which are slow to spend them because of lack of need. According to this argument, giving the Secretary of Labor discretion in where to spend these funds would allow for greater targeting to needy jurisdictions and faster utilization. However, present practice appears to contradict this logic, since the Secretary's Title III discretionary funds take longer to reach their destination than do state formula funds. In last year's budget, the administration proposed a major supplemental appropriation for Title III for distribution at the Secretary's discretion, but Congress rejected this approach. The discretionary method also runs contrary to the recommendations of the Secretary's Task Force on Economic Adjustment and Worker Dislocation, released on January 12. While endorsing a new $900 million initiative to replace Title III, the Task Force recommended distributing 80 percent of the funds to states by formula.

Whatever the outcome of administration proposals concerning funds for dislocated workers programs, members of Congress have expressed strong interest in finding ways to better assist this population and assure a reliable and adequate funding source. In the last Congress, members of the Northeast-Midwest Congressional Coalition introduced a new proposal, cosponsored by Representatives Richard J. Durbin (D-IL) and Sherwood L. Boehlert (R-NY), to establish a national system of Individual Training Accounts (ITAs). Employers and employees would contribute equally to such accounts up to a specified level, and the employee could withdraw needed amounts for retraining upon becoming involuntarily unemployed. The bill will be reintroduced in the 100th Congress.

In other employment and training matters, the president's budget calls for $652 million for the Job Corps. This residential training program for severely disadvantaged youth has been slated for elimination or major reductions by the administration in former years, but Congress consistently has supported it.

The budget requests $693 million for the Employment Service in fiscal 1988 and a negative supplemental of $90 million to bring fiscal 1987 spending to the same level. A negative supplemental imposes no time limit for congressional action, while a rescission requires Congress to concur with the proposal within 45 days or the funds remain available for spending. Technically, under a negative supplemental, funds are unavailable indefinitely until Congress reaffirms its original appropriation. However, the president's budget states that "there will be no Executive Branch action to defer or otherwise restrict the funds currently available until after Congressional enactment of this proposal."

The proposed $693 million spending level for ES compares with $794 million available in fiscal 1986, a reduction of 13 percent. The budget states that this action will not result in a significant change in the level of services, based on the assumption that many employment-related programs will be available under the new Worker Adjustment Assistance program. The budget also states that at a later point the administration will propose amendments to the Wagner-Peyser Act, the authorization for the Employment Service, to clarify and refocus the agency's labor exchange role. Actions for this purpose have been the subject of study by the Northeast-Midwest Congressional Coalition in the past year, as the problems of dislocated workers and disadvantaged youth increasingly point to the need for a strengthened job assessment, counseling, and referral service to meet their employment, training, and education needs. The Coalition will be offering legislation on this subject in the 100th Congress.

B. Unemployment Insurance

The president's budget estimates total outlays for unemployment compensation at $16.3 billion for fiscal 1988, down from $16.6 billion in fiscal 1987. This estimate is based on a projected unemployment rate of 6.4 percent, compared with 6.8 percent this year. The UI program is an important source of income support for the unemployed in the Northeast-Midwest region, where workers received $7.5 billion in benefits (50 percent of the national total) between July 1985 and June 1986. (See the tables at the end of this section.)

Unemployment compensation is expected to serve as the income-maintenance component for the proposed Worker Adjustment Assistance program; unlike the Trade Adjustment Assistance program it replaces, the new program would contain no special unemployment benefits. In keeping with this design, the administration is proposing a $101 million rescission of budget authority for TAA.

Public and private-sector leaders in the Northeast-Midwest region long have supported permitting UI recipients to participate in retraining programs if this would hasten their reabsorption into the workplace. A 1970 federal law prohibits states from denying UI eligibility to those in training "with the approval of the state." However, states vary widely in their administrative practices in this matter. JTPA clearly affirms the policy thrust to combine UI and training. It also recognizes that long-term unemployment and the problems of dislocated workers persist even as economic expansion continues. This fact has prompted many members of Congress and other policy makers to seek ways to shift the UI system from a passive income-maintenance approach to a positive worker-adjustment strategy. One step in this direction would be to combine UI with training. However, Congress must consider whether the duration and amount of UI benefits provide sufficient support for dislocated workers to undertake significant retraining commitments. In the last Congress, the Northeast-Midwest Congressional Coalition's Unemployment Insurance Task Force recommended UI reforms that included variable weeks of additional benefits beyond the basic 26-week state programs based on each state's unemployment rate.

In other UI matters, the president's budget states that the administration will propose legislation to transfer resources and authority for administration of the UI program to the states. Last year's budget contained a similar statement. It has not been decided whether the promised legislation also will address decentralization of the Employment Service, or whether ES changes will be submitted as separate legislation.

C. Education

Despite rhetorical emphasis on the importance of education for maintaining American competitiveness, the president's budget proposes to reduce education spending by $5.3 billion, or over 25 percent, for fiscal 1988 from the level enacted for fiscal 1987; moreover, the president wants to rescind $2.3 billion of the 1987 amount. The budget document argues that these requests reflect the tradition of placing responsibility for education with the family and state and local governments, with the federal interest limited to aid for the disadvantaged and research and analysis. However, Congress may question whether the proposed amount adequately serves this interest.

The major dollar savings would come in the area of higher education, where the president requests $5.1 billion in budget authority for fiscal 1988, $3.9 billion below the 1987 enacted level of $9.0 billion. The budget calls for reductions in the Pell Grant program from the current level of $3.8 billion to $2.7 billion in fiscal 1988 and $2.0 billion in fiscal 1989 and beyond. The budget states that these reductions will be accomplished by further targeting the program to the neediest students, reforming what it characterizes as "liberalizations" contained in the 1986 reauthorization of the Higher Education Act. Proposed legislative changes include: increasing expected family contributions to the levels in effect before 1978, which generally would eliminate the eligibility of students from families with incomes over $20,000;

extending the requirement of expected family contributions to students who attend "low-cost" schools; tightening the definition of "independent student;" and requiring a high school diploma or GED to replace institutional judgments about a student's "ability to benefit" from a postsecondary program. The administration also would eliminate other aid programs, such as supplemental educational opportunity grants, college work-study, and state student incentive grants. Together with Perkins (formerly National Student Defense) loans, these programs were funded at $1.3 billion in 1987; the portion of this amount appropriated for new awards would be rescinded.

In the area of loans for higher education, the budget proposes to reduce funds for Guaranteed Student Loan interest subsidies from the $3 billion enacted for fiscal 1987 to $1.2 billion in fiscal 1988. In this program, the president would eliminate federal payment of interest during in-school, grace, and deferment periods; reduce interest subsidies for lenders; and increase default risk-sharing with lenders and guarantee agencies. Similar proposals were put forth in last year's budget request.

The president does call for a major expansion of the Income-Contingent Loan (ICL) program, newly enacted in 1986. The initial capital contribution of $5 million would be increased to $600 million in fiscal 1988, and all collections on Perkins loans would be shifted to the new ICL program. In keeping with this change, no new capital contributions would be made to the Perkins program in 1988, and the $188 million fiscal 1987 contribution would be rescinded. Collections on prior Perkins loans would support an estimated 756,000 new loans in 1987 and 431,000 new loans in 1988, in which year the new ICL program would support an additional 497,000 loans.

In adult and vocational education, the president's proposal contains mixed news. After two years of widespread publicity on the issue of adult literacy, the budget requests a $24 million increase in funding for the Adult Education Act to a level of $130 million for 1988. Increases would continue in the future, with funding reaching $200 million by 1992. In vocational education, however, the administration would eliminate all federal support on the basis that the program provides only scant benefits and is funded adequately by the states. In addition, the president is requesting a rescission of $450 million of the $882 million appropriated for fiscal 1987. Funding for community-based organizations, consumer and homemaking education, and bilingual vocational training would be terminated immediately if Congress accedes to the rescission request.

In elementary and secondary education, the president requests $4.1 billion for fiscal 1988 for Chapter I of the Education Consolidation and Improvement Act, the major federal program of compensatory education for disadvantaged youngsters. This figure represents a $200 million increase over current funding. The program is due for reauthorization in the 100th Congress, and the administration promises to send a legislative proposal for consideration. Included in the proposal will be provisions for increased targeting on the neediest children and authority for school districts to offer parents of Chapter I students the option of purchasing compensatory education services from other providers. In the last Congress, the Northeast-Midwest Congressional Coalition offered a proposal to increase funding for Chapter I to provide remedial education to older youth -- specifically, those identified as disadvantaged for Title IIB of the Job Training Partnership Act. By tradition, not law, Chapter I services have been available only in grades 1-3; however, the need to extend these compensatory activities to upper grades is widespread. The Coalition's initiative will be reintroduced in the 100th Congress.

For Chapter II block grants to states, the president proposes a continuation of funding at $500 million. As part of its Education Consolidation and Improvement Act reauthorization proposal, the administration will recommend a change in Chapter II to permit a temporary waiver of the "supplement not supplant" provision so that funds can be used at the local level to help implement education reforms mandated by the states.

A table at the end of this section shows state-by-state allocations of Chapter I, Chapter II, and vocational education funds, which are important sources of support for education in the Northeast-Midwest region.

D. Family Support

The president's budget for fiscal 1988 combines two previously separate program requests, Aid to Families with Dependent Children (AFDC) and Child Support Enforcement (CSE), under the heading "Family Support Payments to States." The combined request includes proposals for interrelated program changes that will reduce AFDC spending. Assuming these changes, the combined request is $9.776 billion, an $830 million reduction from the fiscal 1987 level of $10.606 billion. It includes $8.426 billion for AFDC benefits, down from $8.836 billion in fiscal 1987. If proposed program changes are not enacted, $10.244 billion will be required to continue AFDC and CSE under current law, which represents a reduction from 1987 of a lesser amount -- $362 million.

BUDGET SUMMARY
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
AFDC/CSE						
Budget Authority	NA[1]	9,899	10,414	10,244[2]	-1.63	-4.96
Outlays	NA[1]	9,877	10,607	10,244[2]	-3.42	-6.69
Food Stamps						
Budget Authority	11,470	11,762	11,793	11,963[3]	1.44	-1.99
Outlays	11,253	11,619	11,883	11,956[3]	0.61	-2.79

---

[1] Figures for 1981 are not comparable because of changes in program design.
[2] This figure would be reduced by $468 million if proposed legislative changes are enacted.
[3] This figure would be reduced by $277 million if proposed legislative changes are enacted.

For the food stamp program, the other major form of federal assistance to poor households, the administration proposes to spend $11.9 billion in fiscal 1988, a slight increase over the 1987 amount. However, requested program changes, if enacted, would reduce this amount by an estimated $277 million.

The AFDC program provides cash benefits for 3.8 million low-income families with dependent children deprived of parental support due to death, disability, absence of a parent, or, at state option, unemployment of the primary wage earner (AFDC-U). Benefit costs are financed jointly by federal and state governments. The CSE program supports activities to locate absent parents, establish paternity, and promulgate and enforce child-support orders. Collections on behalf of AFDC recipients, who assign their support rights to the government, are divided among the recipients, the states, and the federal government -- which offsets AFDC benefit costs with its share. These programs are important to the Northeast-Midwest region because of its higher overall AFDC needs standards and payment levels and its greater reliance on AFDC over food stamps as a method of family support. (See the tables at the end of this section.)

Under current law, spending for AFDC and CSE is expected to decrease by $362 million in fiscal 1988. This reduction is net of decreases and increases in spending resulting from the resumed collection of error-rate disallowances (-$349 million); an increase in the federal share of child support collections (-$30 million); management improvements (-$273 million); and increased caseload, inflation, and unemployment (+$290 million).

Several proposed program changes subject to congressional action would result in larger reductions totaling $830 million. They include five proposals for AFDC and three for CSE. AFDC changes include the following:

- o The federal matching share for administrative costs in the AFDC, Medicaid and food stamp programs would be reduced to a specified per-recipient level. States would be allowed to offset excess costs in one program against lower costs in the others; adjustments would be made for certain factors affecting costs, such as state employee wage differentials. In AFDC, payments to states would be matched at the current 50 percent rate up to 125 percent of the state's median per-recipient cost, and at 25 percent for costs between 125 and 150 percent of the median, with no matching payments for costs above 150 percent. The administration also proposes to reduce the matching rate for statewide data systems development from 90 percent to 75 percent in fiscal 1988, to continue the rate at 75 percent through fiscal 1990, and then to reduce it to the regular 50 percent rate for administrative costs.

- o A new "Greater Opportunities through Work" (GROW) program would require states to enroll employable adult AFDC recipients in education, training, and work-related activities. A 20 percent participation rate for 1988 would increase 10 percent per year to 60 percent in 1992. State administrative costs would be matched at the current 50 percent rate, but education and training costs would not be matched.

- o The needs of an employable parent or other caretaker would be excluded in calculating AFDC benefits when the youngest child reaches age 16. In determining an AFDC grant, this proposal also would limit the consideration of needs and income to only those persons needed in the home to care for a child.

- States would be required to withhold AFDC eligibility from unmarried minor parents who establish separate households. In other words, single minor parents would be required to live with their parents to be eligible for AFDC, and the payment would be made to the minor's parents.

- The federal government would withhold state AFDC funds to compensate for erroneous payments in excess of the 3 percent error rate for 1988 and succeeding years. The program now uses retrospective collections for erroneous payments above the error rate.

For CSE, proposed changes include the following:

- The federal matching rate would fall to 66 percent in 1988, two years ahead of schedule.

- The federal matching rate for design and development of computer systems would fall from 90 percent to 75 percent in 1988, and to the regular 66 percent rate for administrative costs by 1990.

- Only those states that achieve a cost-effectiveness ratio of 1.4 or above in the comparison of total program expenditures to total AFDC collections would be eligible for non-AFDC collection-incentive payments. States now receive a minimum incentive payment of 6 percent of collections, regardless of costs. States also would be required to establish mandatory guidelines for setting child support awards.

Other administration AFDC proposals, related to the GROW initiative, include a new AFDC-youth program and the elimination of WIN. These are discussed in subsection A, Employment and Training. The president's budget makes note of the fact that no proposals are included for welfare reform; these initiatives will be transmitted later.

The administration proposes changes in the food stamp program to hold down spending in 1988 and future years. These include full state liability for erroneous benefits above a 5 percent error rate, and the prospective withholding of grants to states for excessive food stamp issuance above the 5 percent error rate. These program changes are expected to save $277 million in fiscal 1988 if enacted by Congress.

Job Training Partnership Act: Program Year 1986[1]
(in thousands of dollars)

Region and State	Title IIA Training for Disadvantaged	Title IIB Summer Youth	Title III Dislocated Workers	Wagner-Peyser Employment Service
New England				
Connecticut	13,010	8,943	449	8,723
Maine	7,323	3,386	222	3,987
Massachusetts	27,706	18,607	695	15,012
New Hamoshire	4,446	2,023	117	2,606
Rhode Island	5,976	3,260	149	2,836
Vermont	4,446	1,646	71	2,415
Total	62,907	37,865	1,703	35,579
Mid-Atlantic				
Delaware	4,446	1,686	121	2,068
Maryland	20,897	12,651	715	11,392
New Jersey	39,730	24,150	1,542	20,453
New York	122,489	55,187	4,660	58,914
Pennsylvania	97,824	40,135	4,474	32,816
Total	285,386	133,809	11,512	125,643
Midwest				
Illinois	99,856	45,506	4,850	35,118
Indiana	45,011	20,375	2,155	16,088
Iowa	20,170	8,087	972	9,763
Michigan	95,763	37,858	4,662	28,295
Minnesota	22,127	10,367	991	12,031
Ohio	91,248	39,276	4,645	31,525
Wisconsin	33,040	14,032	1,417	13,558
Total	407,215	175,501	19,692	146,378
South				
Alabama	44,190	17,000	1,791	11,607
Arkansas	20,705	8,072	728	7,685
District of Columbia	6,537	7,410	247	5,718
Florida	62,193	27,641	2,091	28,778
Georgia	35,029	14,639	1,152	15,857
Kentucky	33,518	13,379	1,473	10,694
Louisiana	47,400	17,353	2,075	13,585
Mississippi	28,795	10,778	1,186	8,476
North Carolina	37,703	16,303	1,339	16,407
Oklahoma	22,136	8,293	856	13,470
South Carolina	22,084	9,033	813	8,781
Tennessee	40,486	16,351	1,640	13,298
Texas	95,882	38,662	3,404	45,571
Virginia	26,335	14,137	822	15,206
West Virginia	24,773	9,038	1,300	5,902
Total	547,766	228,089	20,917	221,035

Job Training Partnership Act: Program Year 1986[1] (continued)

(in thousands of dollars)

Region and State	Title IIA Training for Disadvantaged	Title IIB Summer Youth	Title III Dislocated Workers	Wagner-Peyser Employment Service
West				
Alaska	4,896	1,855	204	8,047
Arizona	18,433	8,338	463	8,164
California	189,598	76,760	7,499	73,860
Colorado	17,145	7,162	617	9,226
Hawaii	5,268	2,539	161	3,059
Idaho	7,592	3,010	267	6,704
Kansas	9,123	4,953	376	6,385
Missouri	33,249	15,380	1,402	13,621
Montana	6,219	2,297	236	5,479
Nebraska	5,902	3,247	224	6,584
Nevada	7,063	2,579	318	5,326
New Mexico	11,704	4,834	416	6,148
North Dakota	4,446	1,646	110	5,579
Oregon	26,487	10,012	1,177	9,429
South Dakota	4,446	1,646	88	5,156
Utah	9,194	3,613	326	11,277
Washington	38,477	14,298	1,683	12,526
Wyoming	4,446	1,646	111	4,000
Total or Average	403,688	165,815	15,678	200,570
Northeast	348,293	171,674	13,215	161,222
Midwest	407,215	175,501	19,692	146,378
Northeast and Midwest	755,508	347,175	32,907	307,600
South	547,766	228,089	20,917	221,035
West	403,688	165,815	15,678	200,570
South and West	951,454	393,904	36,595	421,605
U.S. Total[2]	1,706,962	741,079	69,502	729,205

---

[1] The Job Training Partnership Act shifted the funding for employment and training programs from a fiscal year to a program year basis. Program year 1986 runs from July 1, 1986, to June 30, 1987.

[2] U.S. totals do not include Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Department of Labor, Employment and Training Administration, Office of Financial Control and Management Systems, "PY 1986 JTPA Title II-A Allotments to States," "PY 1986 JTPA Title III Dislocated Worker Progam Allotments," and "PY 1986 Title II-B Allotments to States," June 4, 1986; and "Revised Final PY 1986 Wagner-Peyser Allotments to States," May 29, 1986.

Dislocated Workers: 1981-1986

Region and State	Dislocated Workers								Sept. 1986 Labor Force
	Total Dislocated		Reemployed		Still Unemployed		Not in Labor Force		
	Number (in thousands)	Percent of U.S. Total	Number (in thousands)	Percent of U.S. Total	Number (in thousands)	Percent of U.S. Total	Number (in thousands)	Percent of U.S. total	Percent of U.S. Total
New England									
Connecticut	58	1.13	38	1.10	8	0.86	13	1.65	1.50
Maine	25	0.48	18	0.52	2	0.21	5	0.63	0.49
Massachusetts	99	1.93	76	2.21	9	0.97	15	1.90	2.59
New Hampshire	21	0.40	20	0.58	1	0.10	0	0.00	0.48
Rhode Island	15	0.29	11	0.32	2	0.21	2	0.25	0.43
Vermont	6	0.11	5	0.14	0	0.00	1	0.12	0.24
Total	224	4.36	168	4.89	22	2.37	36	4.57	5.73
Mid-Atlantic									
Delaware	8	0.15	6	0.17	1	0.10	1	0.12	0.27
Maryland	66	1.28	52	1.51	1	0.10	13	1.65	1.99
New Jersey	139	2.71	91	2.65	21	2.26	27	3.43	3.29
New York	263	5.13	145	4.22	69	7.44	48	6.09	7.11
Pennsylvania	331	6.45	205	5.97	72	7.76	54	6.86	4.75
Total	807	15.74	499	14.54	164	17.69	143	18.17	17.41
Midwest									
Illinois	345	6.73	220	6.41	82	8.84	43	5.46	4.83
Indiana	149	2.90	113	3.29	28	3.02	8	1.01	2.39
Iowa	61	1.19	39	1.13	15	1.61	7	0.88	1.20
Michigan	229	4.46	154	4.48	41	4.42	34	4.32	3.66
Minnesota	103	2.00	76	2.21	16	1.72	11	1.39	1.88
Ohio	303	5.91	191	5.56	60	6.47	52	6.60	4.37
Wisconsin	121	2.36	71	2.06	21	2.26	29	3.68	2.04
Total	1311	25.57	864	25.18	263	28.37	184	23.37	20.37
South									
Alabama	120	2.34	80	2.33	21	2.26	19	2.41	1.60
Arkansas	43	0.83	28	0.81	8	0.86	7	0.88	0.92
District of Columbia	6	0.11	5	0.14	0	0.00	1	0.12	0.27
Florida	199	3.88	142	4.13	21	2.26	36	4.57	4.72
Georgia	104	2.02	77	2.24	15	1.61	12	1.52	2.56
Kentucky	87	1.69	56	1.63	22	2.37	9	1.14	1.45
Louisiana	126	2.45	72	2.09	36	3.88	17	2.16	1.68
Mississippi	62	1.20	43	1.25	11	1.18	9	1.14	0.99
North Carolina	134	2.61	92	2.68	20	2.15	22	2.79	2.68
Oklahoma	72	1.40	58	1.69	5	0.53	9	1.14	1.33
South Carolina	61	1.19	47	1.36	7	0.75	7	0.88	1.40
Tennessee	127	2.47	69	2.01	30	3.23	28	3.55	1.96
Texas	369	7.19	245	7.14	53	5.71	70	8.89	6.88
Virginia	99	1.93	79	2.30	18	1.94	2	0.25	2.48
West Virginia	66	1.28	35	1.02	20	2.15	12	1.52	0.63
Total	1,675	32.67	1,128	32.87	287	30.96	260	33.03	31.55

Dislocated Workers: 1981-1986 (continued)

Region and State	Dislocated Workers								Sept. 1986 Labor Force
	Total Dislocated		Reemployed		Still Unemployed		Not in Labor Force		
	Number (in thousands)	Percent of U.S. Total	Number (in thousands)	Percent of U.S. Total	Number (in thousands)	Percent of U.S. Total	Number (in thousands)	Percent of U.S. Total	Percent of U.S. Total
West									
Alaska	7	0.13	4	0.11	2	0.21	1	0.12	0.22
Arizona	54	1.05	40	1.16	5	0.53	10	1.27	1.34
California	455	8.87	322	9.38	70	7.55	63	8.00	11.28
Colorado	67	1.30	44	1.28	14	1.51	9	1.14	1.42
Hawaii	10	0.19	5	0.14	2	0.21	4	0.50	0.41
Idaho	16	0.31	9	0.26	3	0.32	3	0.38	0.41
Kansas	50	0.97	36	1.04	7	0.75	7	0.88	1.04
Missouri	108	2.10	72	2.09	11	1.18	25	3.17	2.17
Montana	16	0.31	11	0.32	2	0.21	3	0.38	0.34
Nebraska	42	0.81	27	0.78	10	1.07	5	0.63	0.68
Nevada	21	0.40	17	0.49	3	0.32	1	0.12	0.45
New Mexico	23	0.44	17	0.49	3	0.32	3	0.38	0.57
North Dakota	11	0.21	7	0.20	1	0.10	2	0.25	0.29
Oregon	70	1.36	46	1.34	18	1.94	5	0.63	1.16
South Dakota	9	0.17	6	0.17	1	0.10	1	0.12	0.30
Utah	28	0.54	23	0.67	3	0.32	2	0.25	0.65
Washington	106	2.06	73	2.12	15	1.61	18	2.28	1.90
Wyoming	16	0.31	13	0.37	21	2.26	2	0.25	0.21
Total or Average	1,109	21.63	772	22.50	191	20.60	164	20.83	24.84
Northeast	1,031	20.11	667	19.44	186	20.06	179	22.74	23.14
Midwest	1,311	25.57	864	25.18	263	28.37	184	23.37	20.37
Northeast and Midwest	2,342	45.68	1,531	44.62	449	48.43	363	46.11	43.51
South	1,675	32.67	1,128	32.87	287	30.96	260	33.03	31.55
West	1,109	21.63	772	22.50	191	20.60	164	20.83	24.84
South and West	2,784	54.31	1,900	55.37	478	51.56	424	53.86	56.39
U.S. Total	5,126	100.00[1]	3,431	100.00[1]	927	51.56	787	100.00[1]	100.00[1]

[1] Figures do not add to 100.00 due to rounding.

SOURCES: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, "Employment Status of Displaced Workers by State," January 1986; Employment and Earnings (Washington, D.C., 1986).

Duration of Unemployment: 1985

Region and State	Total Unemployed (in thousands)	Distribution of Periods of Unemployment			
		less than 5 weeks	5-14 weeks	15 weeks and over	27 weeks and over
		(in percent)			
New England					
Connecticut	83	47.2	28.2	24.6	9.6
Maine	30	42.8	31.1	26.1	13.0
Massachusetts	121	46.4	28.7	24.9	12.5
New Hampshire	21	50.2	35.6	14.1	6.2
Rhode Island	25	46.7	34.0	19.3	7.3
Vermont	13	46.6	33.2	20.2	9.9
Total	293	46.7	31.8	21.5	9.8
Mid-Atlantic					
Delaware	17	50.0	30.9	19.1	9.6
Maryland	103	47.1	28.3	24.5	14.6
New Jersey	218	40.3	32.3	27.5	13.3
New York	544	36.5	31.0	32.5	17.1
Pennsylvania	442	37.4	30.6	32.0	19.0
Total	1,325	42.3	30.6	27.1	14.7
Midwest					
Illinois	513	37.1	28.8	34.1	20.8
Indiana	215	40.4	28.1	31.5	17.3
Iowa	113	36.3	29.7	34.0	24.3
Michigan	433	36.4	28.8	34.8	22.3
Minnesota	133	44.6	28.7	26.7	16.3
Ohio	455	33.1	27.8	39.1	23.8
Wisconsin	171	39.1	27.6	33.3	21.5
Total	2,033	38.1	28.5	33.6	21.0
South					
Alabama	160	45.5	27.0	27.6	14.9
Arkansas	91	47.6	31.0	21.4	11.1
District of Columbia	27	43.8	30.5	25.6	12.0
Florida	319	51.8	30.6	17.6	8.3
Georgia	187	51.8	30.8	17.4	7.9
Kentucky	161	36.5	31.7	31.8	20.3
Louisiana	229	34.7	34.1	31.1	18.5
Mississippi	115	42.7	28.5	28.8	16.8
North Carolina	167	49.2	27.3	23.6	12.4
Oklahoma	112	45.0	30.1	24.9	12.4
South Carolina	107	39.6	32.5	27.9	14.9
Tennessee	180	42.6	31.6	25.8	17.0
Texas	564	51.0	29.5	19.5	9.2
Virginia	161	49.3	31.4	19.2	8.8
West Virginia	100	27.8	27.8	44.4	31.1
Total	2,680	43.9	30.3	25.8	14.4

Duration of Unemployment: 1985 (continued)

		Distribution of Periods of Unemployment			
Region and State	Total Unemployed (in thousands)	less than 5 weeks	5-14 weeks	15 weeks and over	27 weeks and over
		(in percent)			
West					
Alaska	24	46.0	34.7	19.3	7.1
Arizona	96	50.3	31.2	18.5	7.4
California	931	46.2	30.3	23.5	11.6
Colorado	101	42.0	37.5	20.5	8.2
Hawaii	27	43.6	35.3	21.1	11.7
Idaho	37	45.9	33.5	20.6	9.4
Kansas	62	40.6	33.6	25.7	12.0
Missouri	159	41.8	28.5	29.7	14.0
Montana	31	38.3	32.6	29.1	16.4
Nebraska	44	38.6	32.4	29.1	14.1
Nevada	41	42.4	31.3	26.3	13.0
New Mexico	57	43.3	28.7	28.0	17.1
North Dakota	20	44.8	35.1	20.1	9.0
Oregon	117	37.4	29.7	32.8	19.2
South Dakota	18	42.8	32.4	24.8	10.6
Utah	43	46.7	32.2	21.1	9.8
Washington	171	41.9	34.9	23.3	12.5
Wyoming	18	47.0	32.0	21.0	9.3
Total or Average	1,997	43.3	32.6	24.1	11.8
Northeast	1,618	44.5	31.2	24.3	12.3
Midwest	2,033	38.1	28.5	33.6	21.0
Northeast and Midwest	3,651	41.3	29.9	29.0	16.7
South	2,680	43.9	30.3	25.8	14.4
West	1,997	43.3	32.6	24.1	11.8
South and West	4,677	43.6	31.5	25.0	13.1
U.S. Total	8,328	42.1	30.2	27.0	15.4

SOURCE: Staff calculations from U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings (Washington, D.C., 1986).

Unemployment Compensation: July 1985-June 1986

(in millions of dollars)

Region and State	Regular Benefits	Percent of National Total	Revenue	Interest-Free Advances	Interest-Bearing Advances
New England					
Connecticut	186.8	1.22	248.5	41.1	0.0
Maine	64.2	0.42	81.4	0.0	0.0
Massachusetts	453.4	2.97	441.0	0.0	0.0
New Hampshire	15.4	0.10	32.7	0.0	0.0
Rhode Island	75.7	0.49	126.8	0.0	0.0
Vermont	30.5	0.20	58.5	5.2	0.0
Total	826.0	5.42	988.9	46.3	0.0
Mid-Atlantic					
Delaware	35.1	0.23	59.0	0.0	0.0
Maryland	217.3	1.42	341.2	0.0	0.0
New Jersey	677.4	4.44	1,142.6	0.0	0.0
New York	1,200.9	7.88	1,586.6	0.0	0.0
Pennsylvania	1,120.0	7.35	1,481.7	905.3	0.0
Total	3,250.7	21.33	4,611.1	905.3	0.0
Midwest					
Illinois	929.1[1]	6.09	1,458.0	898.0	0.0
Indiana	182.1	1.19	242.5	0.0	0.0
Iowa	179.2[1]	1.17	249.5	0.0	0.0
Michigan	686.3	4.50	1,253.0	1,287.3	0.0
Minnesota	350.1	2.29	364.7	0.0	13.8
Ohio	754.4	4.95	1,020.8	469.4	140.3
Wisconsin	394.1	2.58	611.2	126.7	2.0
Total	3,475.3	22.80	5,199.7	2,781.4	156.1
South					
Alabama	175.2	1.14	272.9	0.0	0.0
Arkansas	120.0	0.78	129.3	0.0	0.0
District of Columbia	61.9	0.40	88.8	0.0	0.0
Florida	296.2	1.94	342.9	0.0	0.0
Georgia	210.2	1.37	273.2	0.0	0.0
Kentucky	186.3	1.22	251.9	0.0	0.0
Louisiana	507.5[1]	3.33	356.6	0.0	593.9
Mississippi	100.6	0.66	123.8	0.0	0.0
North Carolina	245.2	1.60	412.2	0.0	0.0
Oklahoma	194.9	1.27	182.5	0.0	0.0
South Carolina	127.1	0.83	157.3	0.0	0.0
Tennessee	181.6	1.19	209.4	0.0	0.0
Texas	884.3	5.80	961.5	0.0	0.0
Virginia	137.1	0.89	216.4	0.0	0.0
West Virginia	148.1	0.97	161.4	37.2	188.6
Total	3,576.2	23.46	4,140.1	37.2	782.5

Unemployment Compensation: July 1985-June 1986 (continued)

(in millions of dollars)

Region and State	Regular Benefits	Percent of National Total	Revenue	Interest-Free Advances	Interest-Bearing Advances
West					
Alaska	130.2[1]	0.85	94.3	0.0	0.0
Arizona	92.0	0.60	140.4	0.0	0.0
California	2,095.4[1]	13.75	2,196.8	0.0	0.0
Colorado	195.3	1.28	232.9	0.0	0.0
Hawaii	56.1	0.36	67.1	0.0	0.0
Idaho	73.3[1]	0.48	87.2	0.0	0.0
Kansas	152.4	1.00	163.7	0.0	0.0
Missouri	208.6	1.36	320.6	0.0	0.0
Montana	52.4	0.34	75.1	0.0	0.0
Nebraska	67.3	0.44	59.4	0.0	0.0
Nevada	73.5	0.48	88.9	0.0	0.0
New Mexico	71.3	0.46	73.0	0.0	0.0
North Dakota	49.4	0.32	44.9	0.0	11.7
Oregon	254.3	1.66	283.0	0.0	0.0
South Dakota	15.2	0.09	17.3	0.0	0.0
Utah	89.6	0.58	102.8	0.0	0.0
Washington	388.6	2.55	509.4	0.0	0.0
Wyoming	44.5	0.29	53.3	0.0	0.0
Total or Average	4,109.4	26.96	4,610.1	0.0	11.7
Northeast	4,076.7	26.75	5,600.0	951.6	0.0
Midwest	3,475.3	22.80	5,199.7	2,781.4	156.1
Northeast and Midwest	7,552.0	49.55	10,799.7	3,733.0	156.1
South	3,576.2	23.46	4,140.1	37.2	782.5
West	4,109.4	26.96	4,610.1	0.0	11.7
South and West	7,685.6	50.42	8,750.2	37.2	794.2
U.S. Total[2]	15,237.6	100.00	19,549.9	3,770.2	950.3

[1] Extended Benefits were paid also, as follows: Alaska -- $12.4 million; California -- $1.0; Idaho -- $4.3; Illinois -- $0.1; Iowa -- $0.2; and Louisiana -- $15.7.

[2] Total does not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services, _Quarterly Unemployment Insurance Compilation and Characteristics: Third Quarter FY 86_, Vol. 3.3 (Washington, D.C., November 1986).

Selected Education Programs: Preliminary Estimates for Fiscal 1987
(in thousands of dollars)

Region and State	Chapter I	Chapter II	Vocational Education Basic Grant
New England			
Connecticut	44,650	5,822	8,447
Maine	19,046	2,474	4,419
Massachusetts	95,834	10,578	17,324
New Hampshire	9,223	2,474	4,038
Rhode Island	14,057	2,474	4,038
Vermont	10,067	2,474	3,988
Total	192,877	26,296	42,254
Mid-Atlantic			
Delaware	13,776	2,474	3,849
Maryland	63,220	8,268	13,058
New Jersey	122,986	14,427	19,614
New York	400,965	33,812	51,362
Pennsylvania	195,771	22,485	39,311
Total	796,718	81,466	127,194
Midwest			
Illinois	188,185	23,255	35,339
Indiana	60,117	11,633	20,223
Iowa	30,816	5,938	10,102
Michigan	153,420	19,215	31,479
Minnesota	44,846	8,363	13,601
Ohio	132,813	22,052	37,101
Wisconsin	56,995	9,692	16,746
Total	667,192	100,148	164,591
South			
Alabama	72,952	8,585	15,989
Arkansas	47,694	5,010	8,967
District of Columbia	19,058	2,474	3,608
Florida	176,803	18,888	32,725
Georgia	97,740	12,540	22,345
Kentucky	66,381	7,941	14,902
Louisiana	92,310	10,030	17,865
Mississippi	68,372	6,075	10,666
North Carolina	88,714	12,487	24,500
Oklahoma	38,050	6,750	11,474
South Carolina	55,363	7,119	13,755
Tennessee	75,204	9,660	18,473
Texas	292,898	34,550	54,279
Virginia	69,750	10,937	18,665
West Virginia	33,554	4,166	7,354
Total	1,294,843	157,212	275,567

Selected Education Programs:
Preliminary Estimates for Fiscal 1987 (continued)
(in thousands of dollars)

Region and State	Chapter I	Chapter II	Vocational Education Basic Grant
West			
Alaska	11,668	2,474	2,247
Arizona	40,443	6,275	10,519
California	415,123	48,503	69,625
Colorado	38,719	6,243	9,675
Hawaii	11,183	2,474	4,038
Idaho	13,983	2,474	4,038
Kansas	28,664	4,777	7,722
Missouri	59,088	9,914	16,939
Montana	12,178	2,474	4,038
Nebraska	18,742	3,290	5,409
Nevada	7,175	2,474	4,038
New Mexico	29,782	3,185	5,777
North Dakota	8,888	2,474	4,038
Oregon	40,862	5,315	8,770
South Dakota	10,799	2,474	4,038
Utah	13,608	4,419	6,458
Washington	58,146	8,595	13,552
Wyoming	5,948	2,474	2,652
Total	824,999	120,308	183,573
Northeast	989,595	107,762	169,448
Midwest	667,192	100,148	164,591
Northeast and Midwest	1,656,787	207,910	334,039
South	1,294,843	157,212	275,567
West	824,999	120,308	183,573
South and West	2,119,842	277,520	459,140
U.S. Total[1]	3,776,629	485,430	793,179

---

[1] U.S. totals do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Department of Education, unpublished data, preliminary estimates, January 1987.

Maximum Monthly Potential Benefits, AFDC and Food Stamps, One-Parent Family of Three Persons: July 1986

Region and State	Maximum AFDC Grant	Food Stamp Benefits[1]	Combined Benefits	Food Stamps as a Percentage of Combined Benefits	Combined Benefits as a Percentage of Estimated 1985 Poverty Threshhold[2]
	(in dollars)				
New England					
Connecticut	590	107	697	15	97.6
Maine	389	167	556	30	77.9
Massachusetts	476	141	617	23	86.4
New Hampshire	397	165	562	29	78.7
Rhode Island	441	157[3]	598	26	83.7
Vermont	572	112	684	16	95.8
Mid-Atlantic					
Delaware	298	195	493	40	69.0
Maryland	345	198[3]	543	36	76.0
New Jersey	404	163	567	29	79.4
New York[4]	497	151[3]	648	23	90.7
Pennsylvania	382	169	551	31	77.2
Midwest					
Illinois	341	182	523	35	73.2
Indiana	256	207	463	45	64.8
Iowa	381	170	551	31	77.2
Michigan[5]	412	160	572	28	80.1
Minnesota	528	126	654	19	91.6
Ohio	302	193	495	39	69.3
Wisconsin	544	121	665	18	93.1
South					
Alabama	118	211	329	64	46.1
Arkansas	192	211	403	52	56.4
District of Columbia	350	179	529	34	74.1
Florida	252	208	460	45	64.4
Georgia	256	207	463	45	64.8
Kentucky	197	211	408	52	57.1
Louisiana	190	211	401	53	56.1
Mississippi	120	211	331	64	46.3
North Carolina	246	210	456	46	63.9
Oklahoma	310	191	501	38	70.2
South Carolina	199	211	410	51	57.4
Tennessee	155	211	366	58	51.2
Texas	184	211	395	53	55.3
Virginia	354	178	532	33	74.5
West Virginia	249	209	458	46	64.1

Maximum Monthly Potential Benefits, AFDC and Food Stamps, One-Parent Family of Three Persons: July 1986 (continued)

Region and State	Maximum AFDC Grant	Food Stamp Benefits[1]	Combined Benefits	Food Stamps as a Percentage of Combined Benefits	Combined Benefits as a Percentage of Estimated 1985 Poverty Threshhold[2]
	(in dollars)				
West					
Alaska	740	198	938	21	131.3
Arizona	293	196	489	40	68.5
California	617	99	716	14	100.3
Colorado	346	180	526	34	73.7
Hawaii	468	291	759	38	106.3
Idaho	304	193	497	39	69.6
Kansas	403	163	566	29	79.3
Missouri	279	200	579	42	67.1
Montana	354	178	532	33	74.5
Nebraska	350	179	529	34	74.1
Nevada	285	199	484	41	67.8
New Mexico	258	207	465	45	65.1
North Dakota	371	173	544	32	76.2
Oregon	397	200[3]	597	34	83.6
South Dakota	366	174	540	32	75.6
Utah	376	171	547	31	76.6
Washington	492	150[3]	642	23	89.9
Wyoming	360	176	536	33	75.1
Median	354	178	532	33	74.5

---

[1] Food Stamp Benefits are based on maximum AFDC benefits shown. Deductions of $245 monthly ($98 standard household deduction plus $147 maximum allowable deduction for excess shelter cost and/or dependent care) are assumed for the 48 contiguous states and the District of Columbia. In the remaining four jurisdictions these maximum allowable food stamp deductions are assumed: Alaska, $424; Hawaii, $349; Guam, $376; and Virgin Islands, $195. If only the standard deduction were assumed, food stamp benefits would drop by about $43 monthly in most of the 48 contiguous states and the District of Columbia. Maximum food stamp benefits from October 1985 through September 1986 were $211 for a family of three except in these four jurisdictions, where they were as follows: Alaska, $293; Hawaii, $327; Guam, $311; and Virgin Islands, $271.

[2] Except for Alaska and Hawaii, this column is based on the Census Bureau's 1985 poverty threshold for a family of three persons: $8,570 converted to a monthly rate of $714. For Alaska, this threshold was increased by 25 percent; for Hawaii, by 15 percent, following the practice of the Office of Management and Budget.

[3] In these states part of the AFDC cash payment is designated as energy aid and is disregarded by the state in calculating food stamp benefits: Maryland disregards $59; New York, $53; Oregon, $118; Washington, $46; and Rhode Island, $17.

[4] Based on New York City statistics.

[5] Based on Wayne County statistics.

SOURCE: Staff calculations based on Carmen D. Salomon, *Aid to Families with Dependent Children (AFDC): Need Standard, Payment Standard, Maximum Benefit, and Combined Benefits, by State* (Washington, D.C.: Congressional Research Service, July 31, 1986) Table 4.

Food Stamp Program

Region and State	Average Number of Monthly Participants (in thousands)	Participation as a Percentage of Population	Participation increase from from 1984 (in percent)	Value of Coupons Distributed Fiscal 1985 (in millions of dollars)
New England				
Connecticut	145	4.6	-8.4	62
Maine	114	9.9	-4.6	62
Massachusetts	337	5.8	-6.1	173
New Hampshire	28	2.9	-19.1	15
Rhode Island	69	7.2	-9.1	35
Vermont	44	8.3	-11.9	20
Total	737	5.9	-7.5	367
Mid-Atlantic				
Delaware	40	6.5	-11.3	22
Maryland	287	6.6	-5.0	171
New Jersey	464	6.2	-7.9	260
New York	1,834	10.3	-2.0	938
Pennsylvania	1,032	8.7	-6.3	547
Total	3,657	8.7	-4.3	1,938
Midwest				
Illinois	1,110	9.6	-2.0	713
Indiana	406	7.4	-9.9	242
Iowa	203	7.0	-2.1	107
Michigan	985	10.9	-8.1	541
Minnesota	228	5.5	-4.4	105
Ohio	1,133	10.5	-3.8	697
Wisconsin	363	7.6	0.4	148
Total	4,428	9.9	-4.6	2,553
South				
Alabama	588	14.7	-5.7	318
Arkansas	253	10.8	-14.3	126
District of Columbia	72	11.6	-7.2	40
Florida	630	5.7	-10.0	368
Georgia	567	9.7	-5.7	290
Kentucky	560	15.0	-5.7	332
Louisiana	644	14.4	5.0	365
Mississippi	495	19.1	-2.8	264
North Carolina	474	7.7	-6.3	237
Oklahoma	263	8.0	-0.4	134
South Carolina	373	11.3	-7.5	194
Tennessee	518	11.0	-8.0	280
Texas	1,263	7.9	0.7	701
Virginia	360	6.4	-9.7	189
West Virginia	278	14.2	-2.2	159
Total	7,338	9.8	-4.5	3,997

Food Stamp Program (continued)

Region and State	Average Number of Monthly Participants (in thousands)	Participation as a Percentage of Population	Participation increase from from 1984 (in percent)	Value of Coupons Distributed Fiscal 1985 (in millions of dollars)
West				
Alaska	22	4.4	2.0	25
Arizona	206	6.7	-7.6	121
California	1,615	6.3	-3.7	639
Colorado	170	5.3	-5.9	94
Hawaii	99	9.5	-0.4	93
Idaho	59	5.9	-6.1	36
Kansas	119	4.9	-8.9	64
Missouri	362	7.2	-10.7	212
Montana	58	7.0	1.0	31
Nebraska	94	5.9	2.0	44
Nevada	32	3.5	-4.9	22
New Mexico	157	11.0	-3.4	88
North Dakota	33	4.8	5.0	16
Oregon	228	8.5	-3.6	142
South Dakota	48	6.8	1.0	26
Utah	75	4.5	-5.3	40
Washington	281	6.5	1.0	140
Wyoming	27	5.3	4.0	15
Total or Average	3,685	6.4	-4.2	1,848
Northeast	4,394	4.5	-5.0	2,305
Midwest	4,428	9.9	-4.6	2,553
Northeast and Midwest	8,822	6.1	-4.7	4,858
South	7,338	9.8	-4.5	3,997
West	3,685	6.4	-4.2	1,848
South and West	11,023	6.9	-4.4	5,845
U.S. Total	19,845	8.4	-4.6	10,703

SOURCES: Staff calculations from the U.S. Department of Agriculture, Food and Nutrition Service, Food Program Update (Washington, D.C., December 1986); and U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-25 No. 917, 965, and 970 (Washington, D.C.: U.S. Government Printing Office, 1986) p. 27.

SECTION THREE: NATURAL AND PHYSICAL RESOURCES

The Northeast-Midwest region, the traditional industrial heartland of the U.S., contains abundant natural and physical resources that provide economic opportunity and make it a desirable place to live. The region's natural resources include extensive farmland, minerals, forests, river systems, and the Great Lakes. The region also is traversed by a highly developed transportation network that connects raw materials to manufacturing sites and markets. The best use of these resources requires a careful balance between economic development and environmental protection.

This chapter covers water supply and treatment, environmental protection, relevant Department of Agriculture programs including the Forest Service, rural development, and transportation. The administration proposes little change in overall spending for the Army Corps of Engineers and Bureau of Reclamation water projects, although the construction budget for the latter would increase significantly. The administration's effort to phase out the wastewater treatment grants program was unsuccessful; Congress overwhelmingly voted to override the president's veto of the Clean Water Act in the first week of February.

Funding proposals for environmental protection vary. The budget for the Environmental Protection Agency, excluding wasterwater treatment, would rise from $2.015 billion in fiscal 1987 to $2.430 billion in fiscal 1988. Outlays for Superfund would jump from $550 to $900 million in fiscal 1988, while outlays for other operating programs would decline slightly. The combined funding for Great Lakes programs administered by EPA and other agencies would drop from $26 to $13 million in fiscal 1988.

The administration's position on acid rain has been controversial. The Lewis-Davis report, which the administration endorsed jointly with Canada, called for the spending of $5 billion over five years to develop clean coal technologies. The administration claims that total U.S. spending on clean coal technologies over this period will equal almost $7 billion, although the Canadians argue that the projected spending on projects now planned will not fulfill this obligation. Meanwhile, supporters of mandatory acid rain controls have introduced several bills in Congress. Funding for the National Acid Precipitation Assessment Program would remain unchanged.

The president's budget proposal would reduce several Department of Agriculture programs at a time when the agricultural sector is in its worst depression since the 1930s. FmHA ownership loans would be eliminated and disaster loans reduced. The shift from insured (direct) loans to guaranteed loans would continue. While little can be done to alter fiscal 1988 Commodity Credit Corporation outlays, the administration has proposed legislative changes affecting 1988 and later crops. U.S. Forest Service programs would be reduced, especially State and Private Forestry and acid rain research -- programs of importance to the region.

Rural development programs also face deep cuts, more than $2.7 billion from fiscal 1987 levels, at a time of eroding tax bases and soaring unemployment in many small cities and rural communities in the region. The fiscal 1988 budget request seeks elimination of all FmHA development loans and guarantees. Rural housing assistance would be slashed 82 percent. The Appalachian Regional Commission, EDA, and UDAG, all of which have rural program elements, also are proposed for termination. The small cities portion of the CDBG program would be reduced by $154 million from fiscal 1986 levels.

Again this year, the administration proposes dramatic changes in federal transportation programs. It would eliminate federal financing for Amtrak, sell its assets, abolish the Interstate Commerce Commission, and proceed with the public offering of Conrail. It also plans to eliminate general funds for mass transit programs and reduce federal aid for highways.

A. Water Supply and Treatment

Federal water resource programs include the construction and operating budgets of the U.S. Army Corps of Engineers, the Interior Department's Bureau of Reclamation (BuRec), the Soil Conservation Service's (SCS) small watershed programs, the Farmers Home Administration's (FmHA) wastewater treatment grants for small communities, and the Environmental Protection Agency (EPA)'s wastewater treatment grants for municipalities.

Cumulative budget authority for the five programs would increase slightly under the president's budget, from $6.322 billion in fiscal 1987 to $6.339 billion in fiscal 1988, while outlays would drop from $7.053 billion to $6.658 billion. These relatively modest changes, however, obscure the proposed phase-out of several programs that would not be reflected in the budget until later years.

Among the highlights of the administration's proposal:

- The Army Corps budget includes funding for construction of 13 of the 275 water projects authorized by the Water Resources Development Act of 1986 (H.R. 6), which is discussed further below. The budget includes two new sources of revenue for Corps programs that were established by H.R. 6.

- The BuRec construction budget does not include any new proposals for cost-sharing, but does include a proposal to sell outstanding BuRec loans to private lenders.

- As in the past, the administration proposes to phase out the FmHA and SCS water programs.

- The administration's EPA budget attempts to split the difference with Congress by allowing for a $12 billion phase-out of the wastewater treatment grant programs, instead of the $6 billion termination schedule proposed last year. That compromise was rejected when the House on February 3 and the Senate on February 4 voted to override the president's veto of the Clean Water Act.

BUDGET SUMMARY
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Water Resources and Treatment Development						
Army Corps of Engineers						
Budget Authority	3,074	2,722	3,118	3,232	3.66	0.15
Outlays	3,121	2,806	3,128	3,251	3.93	0.42
Bureau of Reclamation						
Budget Authority	788	763	919	1,005	9.36	5.66
Outlays	766	1,043	972	859	-11.63	-14.61
Soil Conservation Service						
Budget Authority	192	257	88[1]	50	-43.18	-45.10
Outlays	205	257	186[1]	108	-41.94	-43.90
Farmers Home Administration						
Budget Authority	200	109	30[2]	0	-100.00	-100.00
Outlays	269	178	167	121	-27.54	-30.00
EPA Wastewater Treatment Grants						
Budget Authority	1,605	1,774	2,000	2,000	0.00	-3.38
Outlays	3,881	3,112	2,600	2,320	-10.77	-13.79
Environmental Protection Agency						
Superfund[1]						
Budget Authority	74	261	1,123	1,200	-6.86	3.24
Outlays	8	435	550	900	63.64	58.10
Regulation						
Budget Authority	535	553	571[3]	515	-9.81	-12.86
Outlays	559	479	572	565	-1.22	-4.56
Research						
Budget Authority	250	214	192[3]	190	-1.04	-4.39
Outlays	247	192	200	195	-2.50	-5.80
Salaries and Expenses						
Budget Authority	562	655	724	778	7.46	3.82
Outlays	543	660	681	757	11.16	7.40

---

[1] Includes a proposed rescission for SCS watershed programs of $88 million in budget authority, and $66 million in outlays for fiscal 1987.

[2] Includes a proposed rescission of $79.5 million in budget authority for FmHA wastewater treatment grants for fiscal 1987.

[3] Includes a proposed rescission of $11 million each from regulation and research programs in fiscal 1987 to finance a federal pay raise.

Army Corps of Engineers

Both budget authority and outlays for the Corps would increase from $3.1 billion in fiscal 1987 to $3.2 billion in fiscal 1988. Outlays for construction would decline slightly from $1.155 billion in fiscal 1987 to $1.150 billion in fiscal 1988. The budget allows for construction of nine new flood control and four new navigation projects. However, the slight decrease must be measured against the fact that outlays for construction jumped from $908 million in fiscal 1986 to $1.155 billion in fiscal 1987, as Congress increased funding in anticipation of enactment of H.R. 6. The 1988 budget thus preserves the higher level of construction activity that actually began in fiscal 1987.

After years of debate, Congress recently passed H.R. 6, which provides the first major reauthorization of the Army Corps of Engineers' civil works program since 1970. The president signed the bill into law in October 1986, despite a price tag that totals $16.3 billion in new spending for 275 projects to dredge harbors, improve inland waterways, protect river basins and shorelines from flooding and erosion, and build multiple-use water projects.

In addition to providing authorization for new projects, H.R. 6 will affect the Corps budget in two ways. First, the new law includes major reforms that allocate a greater share of the costs to local beneficiaries of the projects. The budget estimates above reflect only federal costs. When the local share (which varies according to each category of project) is considered, total spending for construction will exceed actual federal outlays. Second, the budget incorporates two new sources of revenue for Corps programs. H.R. 6 gradually increases the tax on fuel used by commercial barges on inland waterways from the current 10 cents to 20 cents a gallon by 1995. Revenues from the tax would offset the cost of constructing seven new inland waterway projects. The fiscal 1988 budget anticipates $38 million in revenues from the tax. In addition, H.R. 6 imposes a new tax of 4 cents per $100 of value of commercial cargo loaded or unloaded at U.S. ports. The tax, which would be used to offset up to 40 percent of the cost to the Corps of operations and maintenance work at U.S. ports, is expected to raise $149 million in fiscal 1988.

The Northeast-Midwest region historically has received an average of 18 percent of total Corps expenditures, although the distribution has improved slightly in recent years. The region will receive about 26 percent of the funding for new projects authorized by H.R. 6, but this figure obscures important variations within the region and between individual states. A complete state-by-state listing of projects authorized by H.R. 6, together with a brief description of other aspects of the new law, is available from the Northeast-Midwest Institute upon request.

Bureau of Reclamation

Budget authority for the Bureau of Reclamation would climb from $919 million in fiscal 1987 to $1.005 billion in fiscal 1988, while outlays would decline slightly from $972 million to $859 million. Outlays for construction would increase from $628 million to $695 million over the same period. The bulk of the BuRec construction budget is reserved for large projects in Arizona, Colorado, and Utah. The Bureau of Reclamation, limited by law to operation in 17 Western states, provides federal subsidies for irrigation and industrial and urban water supply projects. Cost-sharing arrangements are negotiated on a project-by-project basis, with the local share usually financed through long-term, low-interest loans.

The administration has not proposed any uniform cost sharing for the BuRec program. However, this year's budget assumes $350 million in revenue from the sale of certain BuRec loan portfolios to private lenders. This proposal, which would require specific authorization from Congress to be made effective, is part of a larger administration initiative to raise cash to help offset the deficit by "privatizing" federal loan portfolios. It does not appear that privatizing BuRec's low-interest loans would increase costs to local beneficiaries appreciably.

SCS and FmHA

As in last year's budget, the president proposes to phase out the SCS small watershed and FmHA rural sewer grants programs. The budget proposes to rescind $88 million in budget authority and $66 million in outlays from the SCS watershed programs in fiscal 1987, and $79.5 million in authority for FmHA rural sewer grants in the same year. As in the past, the administration argues that both programs -- which will have combined fiscal 1987 outlays of $421 million assuming no rescission -- are too small to affect national water policy, and could be undertaken by local governments. Congress has resisted past efforts to terminate these programs. In fiscal 1986, the Northeast and Midwest received 19 percent of the spending for SCS watershed programs, and 35 percent of the FmHA wastewater grants and loans. (See the table at the end of this section for a state-by-state breakdown.)

EPA Wastewater Treatment Grants

The long battle between the administration and Congress over the future of the multi-billion dollar wastewater treatment grants ended the first week of February, when first the House and then the Senate voted by overwhelming margins to override President Reagan's earlier veto of the Clean Water Act (H.R. 1) The override establishes a schedule to phase out the wastewater treatment grants, and it authorizes $18 billion in spending from fiscal 1986 until the program expires in fiscal 1994. The override also rejected the president's fiscal 1988 budget proposal that $12 billion be authorized to carry the program to termination.

The EPA wastewater treatment grants program provides 55 percent federal matching grants to help states and localities upgrade sewage treatment plants to meet the standards of the Clean Water Act. An EPA needs assessment survey estimated that $108.9 billion would have to be invested in improved sewage treatment between 1984 and the year 2000 to maintain progress toward meeting the national goal of "fishable, swimmable" waters. The phase out of federal funding, together with the elimination of tax-exempt industrial bonds for pollution control projects in the Tax Reform Act of 1986, will put considerable pressure on local sources of financing for wastewater treatment.

The Northeast-Midwest region has an estimated 54 percent of the nation's treatment needs through the year 2000, the EPA survey found. In fiscal 1986, the region received 51.5 percent of the allocations under the wastewater treatment program. H.R. 1 preserves the existing formula, which targets funding toward states with the greatest need for investments to improve water quality. The Northeast-Midwest Congressional and Senate Coalitions last year beat back an effort to make radical changes to the formula that would have cut the allocation to Great Lakes states by 20 percent.

B. Environmental Protection

This section covers the budget for the Environmental Protection Agency (excluding wastewater treatment grants), including a special sections on groundwater programs; the Great Lakes programs of EPA, the National Oceanic and Atmospheric Administration (NOAA), and the Department of Interior; and acid rain initiatives, including funding for the Department of Energy's clean coal program.

Environmental Protection Agency

Budget authority for EPA programs, excluding wastewater treatment, would rise from $2.015 billion in fiscal 1987 to $2.430 billion in fiscal 1988 under the president's request. Most of the increase is reserved for the Superfund hazardous waste cleanup program, which would increase from $550 million in fiscal 1987 outlays to $900 million in fiscal 1988 and $1.175 billion in fiscal 1989. From another perspective, EPA plans to increase its obligations under the multi-year Superfund program from $1.123 billion in fiscal 1987 to $1.579 billion in fiscal 1989.

Sixty percent of the more than 2,000 abandoned hazardous waste dumps that the program targets for cleanup are located in the industrial states of the Northeast and Midwest. Last year, Congress authorized a five-year, $8.5 billion spending level for Superfund (H.R. 2005), to be financed as follows:

Five-Year Revenues for Superfund

Source	Revenue (in billions of dollars)
Alternative Minimum Tax	$2.500
Petroleum Excise Tax	2.750
Chemical Feedstock Tax	1.400
General Revenues	1.250
Interest/Cost Recovery	.600
TOTAL	$8,500

SOURCE: House Ways and Means Committee, February 1987.

The administration does not anticipate spending any of the $1.250 billion in general revenues provided for Superfund in fiscal 1988 and 1989. Instead, to minimize the impact on the deficit, the entire program would be funded through the special industry taxes described above. The administration's estimate of only $900 million in outlays in fiscal 1988 may indicate a slower rate of spending than anticipated by H.R. 2005. However, the higher estimate allowed for multi-year obligations in fiscal 1988, together with the uncertainty of predicting actual cleanup costs, suggest that it is premature to project how much will be spent over the five-year life of the program.

Outlays for research at EPA would drop from $203 to $201 million between fiscal 1987 and 1988 under the president's request, while outlays for abatement, control, and compliance (which encompass the regulation and enforcement programs) would decline from $57.5 million to $54.7 million. Budget authority for research would fall from $202 million to $190 million, and for abatement from $583 million to $515 million.

The administration is asking for a rescission of $11 million each from the research and abatement programs of fiscal year 1987 to help finance the cost of the pay raise for federal workers that takes effect this year. In addition, the president proposes to rescind $47.5 million in fiscal 1987 spending for the school asbestos removal program, arguing that states have the resources to carry out that particular task.

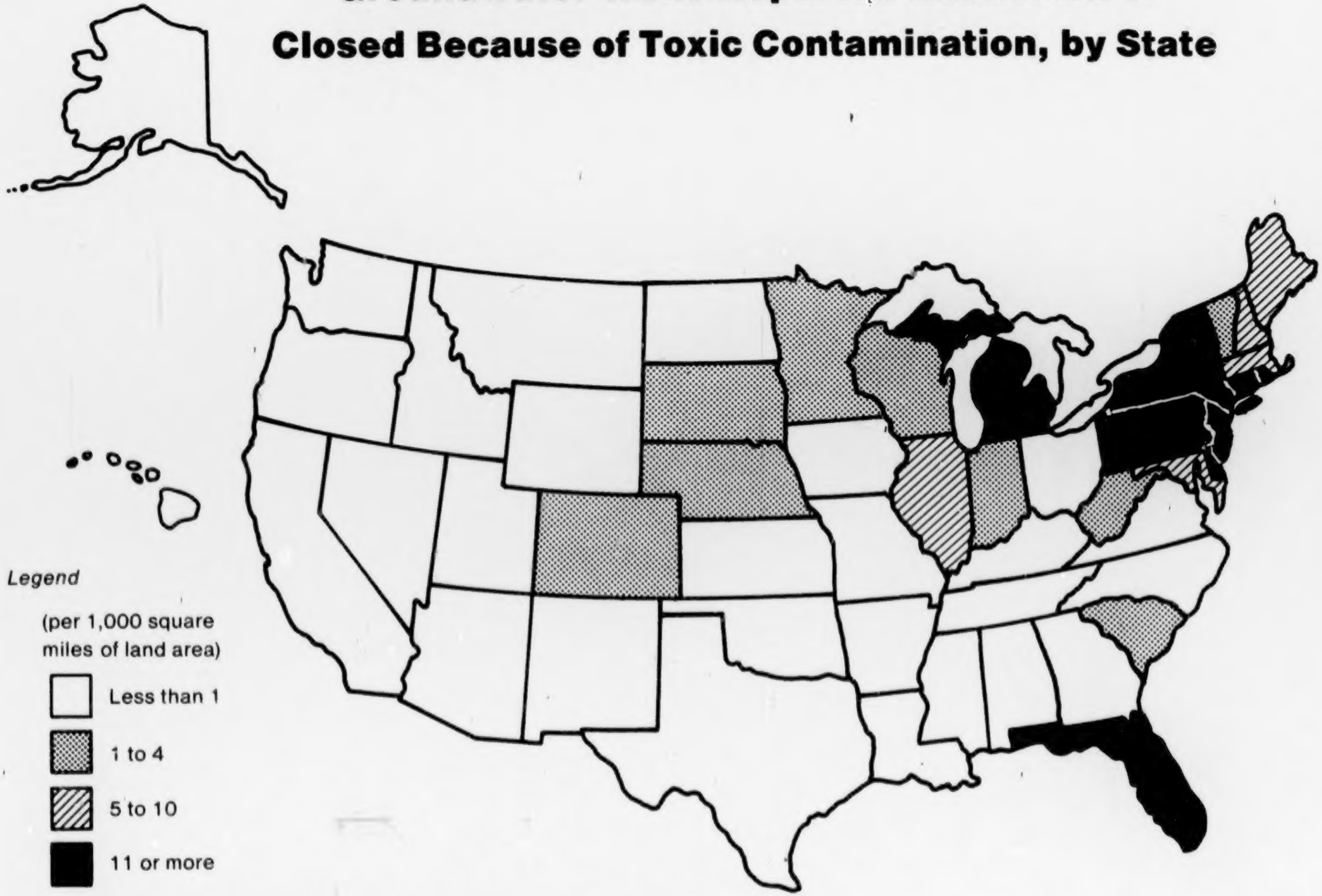
Budget authority for EPA's water quality program would be cut from $239 million to $229 million between fiscal 1987 and 1988, while outlays would remain constant at $243 million. The reauthorization of the Clean Water Act that became law with the recent override of the president's veto imposes significant new obligations on EPA that will require additional funding for water quality programs beyond that proposed in the budget.

Groundwater Protection

A number of EPA activities designed to provide groundwater protection are not identified as such in the budget request. For example, significant parts of programs under the Resource Conservation and Recovery Act (RCRA), the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, or Superfund), and the Safe Drinking Water Act (SDWA) are devoted either to prevention or to cleanup of groundwater contamination. The absence of specific budget categories makes it difficult to characterize the extent and scope of federal groundwater protection efforts through a budget analysis.

Nevertheless, budget requests for several programs can be analyzed as indicative of the federal commitment. These are: 1) the operation of EPA's Office of Groundwater Protection; 2) grants to states for the development of state groundwater protection programs; 3) grants to states to develop leaking underground storage tank (LUST) protection programs; and 4) a newly established LUST trust fund to pay for cleanup at contaminated sites. Additionally, a program to provide protection for recharge areas around public groundwater wells is scheduled to begin operations in fiscal 1988. The following table summarizes budgeted and expected expenditures for these programs.

Groundwater Wells Reported Restricted or Closed Because of Toxic Contamination, by State


Legend
(per 1,000 square miles of land area)
☐ Less than 1
▩ 1 to 4
▨ 5 to 10
■ 11 or more

Source: *Areas Closed or Restricted Because of Toxic Contamination: Summary Listing.* Public Health Service Agency for Toxic Substances and Disease Registry, National Governors' Association, Committee on Energy and Environment. November 1984. Data analysis by The Northeast-Midwest Institute

Expenditures and Budget Requests for Selected EPA
Groundwater Protection Programs
(in millions of dollars)

Program	Fiscal 1986	Fiscal 1987	Fiscal 1988
Office of Groundwater Protection	2.5	6.7	7.2
Groundwater Protection Program Development Grants to States	6.5	6.7	
Leaking Underground Storage Tank Program Development Grants to States	6.7	6.7	6.7
Leaking Underground Storage Tank Trust Fund (primarily through EPA-state cooperative agreements)		7.5*	17.5*
Wellhead Protection Area Grants to States (begins in Fiscal 1988)			8.0

*Outlay estimates made from the president's $25 million fiscal 1987 budget request.

The projected LUST Trust Fund outlays are far below the amount Congress intended. Congress created the fund in the Superfund Amendments and Reauthorization Act of 1986, and instituted a 0.1 cent per gallon tax on motor fuels to pay for it. The tax will raise over $100 million annually, in anticipation of which Congress appropriated $50 million for the remainder of fiscal 1987, and it projected annual expenditures of about $100 million from fiscal 1988 to fiscal 1991.

The administration's budget request for the Trust Fund is $25 million for fiscal 1987 and $25 million for fiscal 1989. It makes no budget request for fiscal 1988, reasoning that the $50 million appropriated in fiscal 1987 "will allow the Agency and States to respond effectively to releases from underground petroleum storage tanks" until at least the beginning of fiscal 1989. The president's outlay estimates -- $7.5 million in fiscal 1987, $17.5 million in fiscal 1988, and $22.5 million in fiscal 1989 -- show that the administration plans to make the $50 million last until October of 1990, or for two and one-half years. State need for the funds, on the other hand, is equal to -- or more than -- the amounts approved by Congress, according to surveys conducted by EPA and the Northeast-Midwest Institute.

States of the Northeast and Midwest have the most to gain from effective use of these funds, and the most to lose if fund resources are limited arbitrarily. Sixteen of the 18 Northeast-Midwest states have identified leaking underground storage tanks as a major source of groundwater contamination. Although uniform data on leaking underground tanks for all the states is not yet available, a 1984 survey of the 50 states by the National Governors'

Association showed that 11 of the 12 states in the U.S. with the highest density of underground wells closed or restricted because of toxic pollution are in the region (see the map on the following page).

Great Lakes

A combination of federal programs affect the environment of the Great Lakes, including the EPA Great Lakes National Program Office in Chicago; the EPA Large Lakes Laboratory in Grosse Ile, Michigan; NOAA's Great Lakes Environmental Research Laboratory (GLERL) in Ann Arbor, Michigan; the Coastal Zone Management and Sea Grant programs, also administered by NOAA; and the Department of the Interior's Great Lakes Fisheries Research Laboratory in Ann Arbor. The president's request would reduce the budget for these combined Great Lakes programs from $26.3 million in fiscal 1987 to $13 million in fiscal 1988. Fiscal 1987 spending is compared to the fiscal 1988 request for these programs in the table below:

Great Lakes Programs
(in millions of dollars)

Agency	Fiscal 1987 Expenditures	Fiscal 1988 Request
Environmental Protection Agency		
Great Lakes National Program Office	5.3	4.9
Great Lakes Laboratory	1.9	1.9
Department of Commerce/NOAA		
Great Lakes Environmental Research Lab	4.1	3.0
Sea Grants[1]	6.4	0.0
Coastal Zone Management[2]	5.6	0.0
Department of Interior		
Great Lakes Fisheries Laboratory	3.0	3.2
TOTAL	26.3	13.0

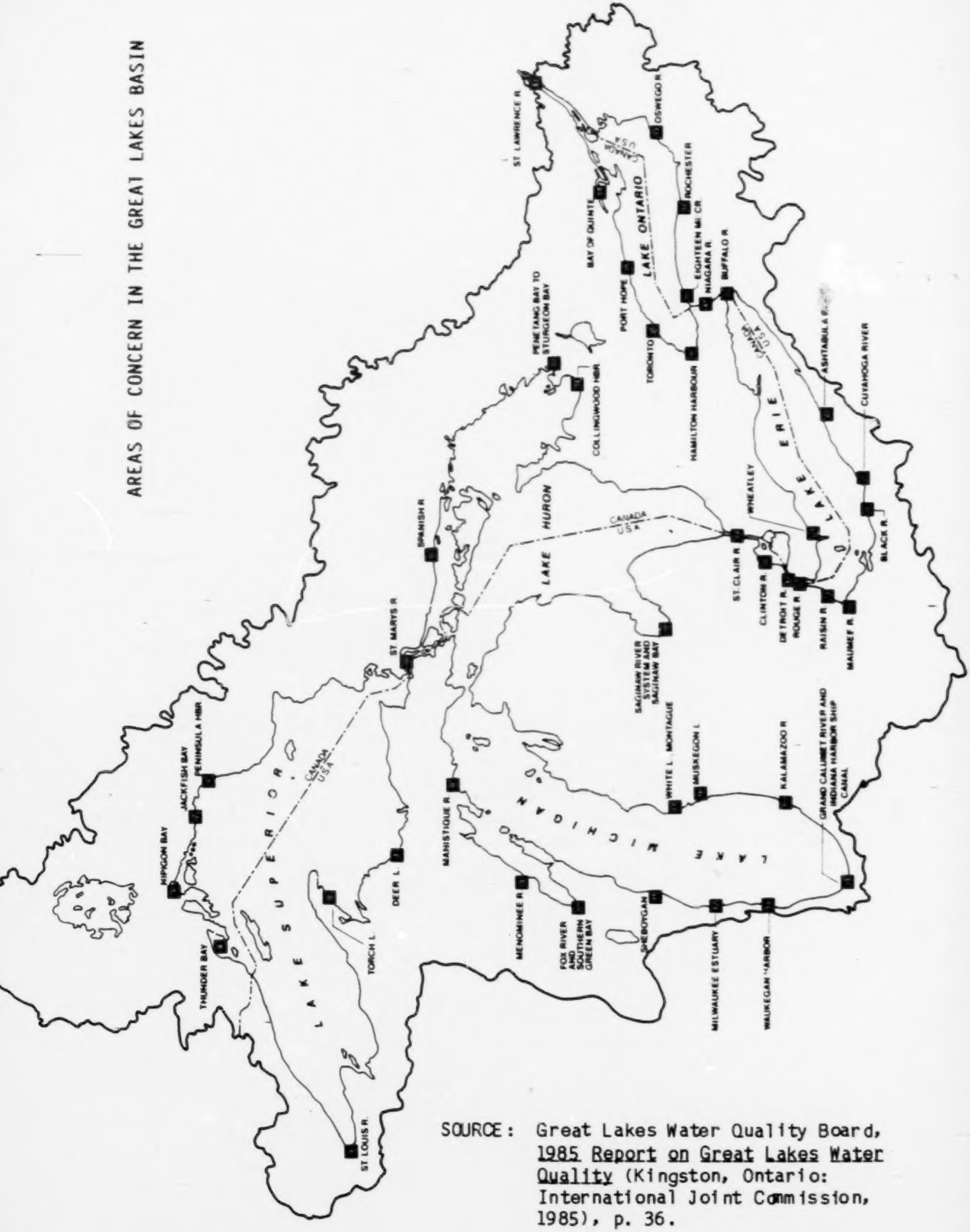
---

[1] Great Lakes states with Sea Grant colleges include Illinois and Indiana (shared program), Michigan, Minnesota, New York, Ohio, and Wisconsin. Fiscal 1987 estimates are based on actual fiscal 1986 expenditures, as the Sea Grant program received the same funding in both years and specific state information was not available for fiscal 1987.

[2] Great Lakes states receiving Coastal Zone Management Grants include Michigan, New York, Pennsylvania, and Wisconsin.

As in every administration proposal since 1981, the fiscal 1988 budget proposes terminating the Sea Grants program, which provides marine research and extension service through universities, and the Coastal Zone Management grants

AREAS OF CONCERN IN THE GREAT LAKES BASIN


LAKE SUPERIOR
LAKE MICHIGAN
LAKE HURON
LAKE ERIE
LAKE ONTARIO
CANADA
USA
ST. LOUIS R.
THUNDER BAY
NIPIGON BAY
JACKFISH BAY
PENINSULA HBR
TORCH L.
DEER L.
MANISTIQUE R.
MENOMINEE R.
FOX RIVER AND SOUTHERN GREEN BAY
SHEBOYGAN
MILWAUKEE ESTUARY
WAUKEGAN HARBOR
GRAND CALUMET RIVER AND INDIANA HARBOR SHIP CANAL
KALAMAZOO R.
MUSKEGON L.
WHITE L. MONTAGUE
SAGINAW RIVER SYSTEM AND SAGINAW BAY
ST. MARYS R.
SPANISH R.
PENETANG BAY TO STURGEON BAY
COLLINGWOOD HBR
ST. CLAIR R.
CLINTON R.
DETROIT R.
ROUGE R.
RAISIN R.
MAUMEE R.
BLACK R.
WHEATLEY
CUYAHOGA RIVER
ASHTABULA R.
BUFFALO R.
NIAGARA R.
EIGHTEEN MI. CR.
HAMILTON HARBOUR
TORONTO
PORT HOPE
BAY OF QUINTE
ROCHESTER
OSWEGO R.
ST. LAWRENCE R.

SOURCE: Great Lakes Water Quality Board, 1985 Report on Great Lakes Water Quality (Kingston, Ontario: International Joint Commission, 1985), p. 36.

to states that have federally approved coastal environmental programs. However, funding for EPA's Great Lakes programs would be cut less severely than proposed in previous years.

The Great Lakes, with 95 percent of the nation's fresh surface water, represent one of the region's greatest natural resources. The information provided by the network of federal Great Lakes programs is essential for coordinated pollution-control planning for the Great Lakes ecosystem, and for evaluating the spread of toxic contaminants across state and national boundaries. While the combined federal and state investment in wastewater treatment has helped to reduce phosphorus pollution in the Great Lakes, toxic contaminants continue to pose a serious water quality problem. The U.S.-Canadian International Joint Commission has identified 43 "areas of concern" where unusually high levels of toxic contamination have persisted over the past ten years. The location and sources of contamination of these toxic hotspots are shown in the accompanying illustration.

The Clean Water Act recently passed by Congress includes a Great Lakes Management Amendment that provides an additional $55 million over five years ($38.5 million for EPA's Great Lakes National Program Office and $16.5 million for NOAA) to establish a comprehensive program to control toxic pollution in the Lakes. The amendment earmarks $22 million for an EPA pilot program to begin the job of cleaning up contaminated sediments at toxic hotspots, and it recommends that the work be directed to five sites: Buffalo River, New York; Ashtabula River, Ohio; Grand Calumet River, Indiana; Saginaw Bay, Michigan; and Sheboygan Harbor, Wisconsin. The amendment is intended to increase EPA's ability to secure compliance with the Clean Water Act and the U.S.-Canada Water Quality Agreement, which sets ambitious goals for the cleanup of toxics in the Great Lakes. The administration's fiscal 1988 budget does not include funding for the Great Lakes initiative.

Acid Rain and Clean Coal Technologies

The Congressional Office of Technology Assessment estimates that over 26 million tons of sulfur oxide (SOx) were emitted in the U.S. in 1980. The Eastern coal producing and consuming region is the principal source of these emissions, which are carried downwind and deposited on Northeastern states and Canada. The administration has requested that the National Acid Precipitation Assessment Program (NAPAP), a multi-agency task force, receive $85 million in fiscal 1988 to study the relationship between these emissions and acid rain. Since NAPAP was established in fiscal 1981, it has received over $300 million, and the administration has recommended that an additional $170 million be spent in fiscal 1989 and 1990.

The administration has made support for the recommendations of the Lewis-Davis report the centerpiece of its acid rain efforts. President Reagan and Canada's Prime Minister Brian Mulroney agreed to the Lewis-Davis report last year as part of a summit between the two countries. The report concludes that acid rain is a serious environmental problem and, because current controls are expensive, recommends the establishment of a $5 billion program to demonstrate new, cost-effective clean coal technologies. The Canadians expected a demonstration program of this size would complete needed clean coal technology research and development, as well as result in some actual emission reductions.

The U.S. and Canada will meet again this year to discuss progress on acid rain. The administration contends that total federal and nonfederal spending on clean coal technologies in the next five years will be nearly $7 billion, $2.3 billion of which would be federal, therefore satisfying the Lewis-Davis obligation. The Canadians dispute this claim. To qualify under the Lewis-Davis criteria, projects should be demonstration scale, not basic R & D, and they should be retrofits that reduce current emissions affecting Canada, not technologies for future new sources. According to the Canadian analysis, only about $1.7 billion in federal and nonfederal funds of the $7 billion counted by the administration would fit the Lewis-Davis criteria.

Of the $2.3 billion in federal funding the administration has counted, the $750 million Clean Coal Technology program (CCTP) comes closest to satisfying the Lewis-Davis criteria. The CCTP was created to support clean coal demonstration projects jointly funded with states and the private sector. In fiscal 1986, a three-year federal appropriation totaling $400 million was approved and nine projects were selected for funding, with total projects costs of nearly $1 billion. The Canadians have indicated, however, that only two of these projects satisfy the Lewis-Davis criteria. As a result, according to their analysis, the volume of actual emissions reduced by these projects is quite small -- less than 65,000 tons of sulfur oxide.

The administration has requested that an additional $50 million be spent on the Clean Coal Technology program in fiscal 1988, and that the remaining $300 million be spent over the next four years (fiscal 1989-1992). Report language adopted last year by Congress directs the Department of Energy to limit further solicitations to technologies for retrofit, modernization, or repowering of facilities, placing program funding more clearly under the Lewis-Davis criteria. Even if the remaining funds under this program comply fully with Lewis-Davis, however, they will constitute only a small portion of the administration's original agreement.

As an alternative to Lewis-Davis, mandatory emission reductions could be required. In the Senate, four bills already have been introduced: S. 95, by Senator Kerry; S. 300, by Senator Stafford; S. 316, by Senator Proxmire; and S. 321, by Senator Mitchell. S. 95, S. 300, and S. 321 would reduce SOx emissions by at least 12 million tons a year, and S. 316 would would require a 10 million ton reduction. Only S. 95 would offer national cost-sharing to help pay for the costs of controls, with funding provided through a graduated fee on electricity generation.

Last year in the House, an acid rain control bill, H.R. 4567 introduced by Representatives Sikorski, Conte, Boehlert and Richardson, passed the Subcommittee on Health and the Environment and was awaiting action in the Energy and Commerce Committee when the session ended. H.R. 4567 would have reduced annual U.S. emissions of SOx by over 9 million tons in ten years. In addition, H.R. 4567 included cost sharing, but only where necessary to limit state residential electricity rate increases to 10 percent. If needed, cost sharing would be financed by an electricity generation fee of 1/4 mill per kilowatt hour.

C. Agriculture

The president's budget for the Department of Agriculture (USDA) requests an overall reduction of $4.1 billion (7.8 percent) in budget authority and $4.3 billion (7.8 percent) in outlays from fiscal 1987 levels. The budget reflects the administration's desire to move to a more market-oriented farm policy that will increase exports. The proposal accepts the basic price-support structure of the Food Security Act of 1985 (the farm bill), but proposes changes to address the bill's problems. Specifically, the administration intends to:

- "decouple" income support from incentives to produce;
- cap federal payments that farmers may receive at $50,000 and tighten the loopholes that make the current limitations ineffective; and
- reduce target prices by 10 percent annually.

These budget reductions come at a time of continued recession in the farm economy and renewed debate over the direction of farm policy. The well-documented crisis of the agricultural economy of the 1980s continues. Basic commodity prices generally are low, and many farmers are unable to recover their cost of production. Real net farm income has declined as a result. Agricultural exports have decreased since 1981 due to an overvalued dollar and increased competition from other countries for world market shares. The combination of low commodity prices and declining exports has, in turn, reduced the ability of many farmers to pay their debt obligations, especially those who expanded their operations during the late 1970s and early 1980s.

The 1985 farm bill attempted to protect farm income while increasing the competitiveness of U.S. agricultural commodities by lowering prices and providing export subsidies. The bill froze, then gradually reduces, income supports for farmers. It requires reductions in price support loan rates and allows further discretionary reductions by the Secretary of Agriculture to make commodity prices more competitive on world markets.

Many farmers were able to continue farming another year only because federal commodity program payments made up for income they normally would have received from the market. Consequently, federal expenditures on agricultural programs reached a record $25.8 billion in fiscal 1986.

While some see promising signs of change in agricultural indicators, the reality for 20 to 30 percent of farmers is bleak. Farmland values in the U.S. have had the two largest back-to-back declines since the Depression. The current glut in farmland and farm equipment, caused by increased bankruptcies, repossessions, and voluntary departures from farming, has seriously eroded the equity of other farmers. According to the Department of Agriculture, farm equity has dropped more than $250 billion from a high of $833 billion in 1980. Midwestern states have seen the sharpest declines in farmland values: in seven states values have declined by over 40 percent since 1981 -- Illinois, Indiana, Iowa, Minnesota, Missouri, Ohio, and Wisconsin.

BUDGET SUMMARY
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
			Department of Agriculture			
Commodity Credit Corporation						
Budget Authority	4,207	23,035	21,493[1]	16,378[2]	-23.80	-26.4
Outlays	4,061	25,841	25,262[1]	21,272[2]	-15.79	-18.6
Agriculture Credit Insurance Fund						
Budget Authority	573	4,624	3,506	3,735[3]	6.53	2.9
Outlays	-228	3,234	3,187	2,755[4]	-13.56	-16.5
Cooperative State Research Service						
Budget Authority	201	285	308	240	-22.08	-24.7
Outlays	199	260	285	299	4.91	1.4
Extension Service						
Budget Authority	304	328	332	263	-20.78	-23.5
Outlays	301	340	332	274	-17.47	-20.3
			U.S. Forest Service			
National Forest System[5]						
Budget Authority	975	1,002	1,046	1,015	-3.0	-6.2
Outlays	NA	978	1,059	1,021	-3.6	-6.8

---

[1] Assumes $24.7 million supplemental in budget authority and outlays under existing legislation.

[2] Includes $308 million proposed for later transmittal under proposed legislation.

[3] Includes $50 million proposed for later transmittal under propossed legislation.

[4] Includes a reduction of $133 million proposed for later transmittal under proposed legislation.

[5] Excludes funds for fire fighting which are usually provided at the end of the year in a supplemental. Fire fighting funds in past years are as follows: fiscal 1981, $104 million; fiscal 1986, $167 million; fiscal 1987, $125 million; and fiscal 1988, $1 million. Also includes transfer of $13 million into National Forest System for fiscal 1987.

BUDGET SUMMARY
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Construction						
Budget Authority	248	215	262	222	-15.3	-18.1
Outlays	NA	253	246	233	-5.3	-8.5
Research						
Budget Authority	108	114	124	122	-1.6	-4.9
Outlays	NA	112	124	123	-0.8	-4.2
State and Private Forestry[6]						
Budget Authority	71	55	58	35	-39.7	-41.7
Outlays	NA	54	58	39	-32.8	-35.0
Total[7]						
Budget Authority	2,113	2,429	2,033	1,628		
Outlays	1,952	2,125	2,355	1,619		

---

[6] Assumes a transfer of $1 million in fiscal 1987 out of State and Private Forestry.

[7] Total excluding trust funds.

Because land is frequently used as collateral for loans, farm banks have become vulnerable; their loan collateral has declined, and more of their borrowers have become delinquent. Agricultural lenders, in some cases concerned for their own existence, have found it necessary to call in loans and refuse credit to customers. Increasing numbers of farmers have had to turn to the "lender of last resort," the Farmers Home Administration (FmHA).

A recent General Accounting Office study examined new FmHA direct loan borrowers over the course of a year and found they had an average debt-to-asset ratio of 70.6 percent. That was the good news. All other existing FmHA borrowers in the study had an average debt-to-asset ratio of 88.6 percent. The FmHA has instituted tougher eligibility requirements for borrowers, and its administrator frankly admits that not all producers wanting loans will be able to get them.

Despite repeated attempts at creating accounting changes, federal officials have predicted that some institutions of the Farm Credit System will be insolvent by the second quarter of the year, necessitating a federal bailout. Although the number of commercial farm bank failures declined from 62 in 1985 to 59 in 1986, the number of farm banks with more problem loans than capital in fiscal 1986 was up 30 percent over fiscal 1985.

Commodity Price Support Programs

Commodity programs administered through the Commodity Credit Corporation (CCC) constitute the single largest portion of federal expenditures in the agricultural sector. Commodity programs are entitlement programs; any producer who meets the program requirements is eligible for price and income supports. Low market prices in recent years have resulted in greater producer participation in these programs and the accumulation of surplus stocks of commodities by the government, while the commitment to protecting farm income has resulted in large direct federal payments to producers. Net CCC outlays (detailed in the table at the end of this section) hit a record $25.8 billion in fiscal 1986 and are expected to remain above $25 billion in fiscal 1987.

The president's budget expects net outlays in fiscal 1988 to decline to $21.3 billion for several reasons. The proposal assumes no advanced deficiency payments for the 1988 crops. Deficiency payments are direct farm income support payments based on "target prices" set by the farm bill. The proposal also assumes lower price-support lending in the feed grain program due to production adjustment programs and stronger demand for corn.

Most outlays in fiscal 1987 and 1988 will result from provisions of the 1985 farm bill. (Outlays in 1986 resulted primarily from the Agriculture and Food Act of 1981, as amended.) Since producers already are enrolling in 1987 crop programs, for which expenditures will fall in 1988, little can be done to alter outlays in 1988. However, the administration has proposed legislative changes affecting 1988 and later crops which it claims would result in farm-program savings of over $20 billion during the next five years. These include decoupling income support from incentives to produce; capping federal payments that farmers receive at $50,000; and reducing target prices by 10 percent annually.

The CCC must make cash outlays for price and income supports, some of which it will not recover. These outlays are restored through congressional appropriations. In 1986, Congress provided about $25 billion to the CCC in five separate appropriations. The CCC is expected to exhaust its borrowing authority by late spring. The administration's proposal asks that Congress grant the CCC "permanent, indefinite authority" to be reimbursed for its losses by the Treasury, rather than through the appropriations process. Congress has rejected similar requests twice in the last two years. In fiscal 1986, $2.4 billion of CCC net outlays went to states in the Northeast and Midwest, primarily through feed grain and dairy-program payments. (See the table on Farm Program Expenditures at the end of this section for state-by-state and regional data.)

Agricultural Credit Programs

The Farmers Home Administration (FmHA) is the second largest source of farm-program costs. Farm loans comprise the bulk of FmHA expenditures. The administration continues to encourage private-sector funding by expanding the guaranteed lending programs. Current legislation calls for program levels of $2.61 billion for guaranteed farm operating loans and $870 million in direct operating loans. The administration proposes program levels for fiscal 1988 of $2.5 billion in guaranteed operating loans and $1 billion for direct operating loans. These figures represent an increase of $330 million for the guaranteed program and a decline of $425 million for the direct programs from forecast 1987 program levels.

The administration proposes to reduce emergency disaster loans from the $600 million called for under current legislation to $295 million. Disaster loans would be allowed only on losses for which crop insurance is not available. This budget also would eliminate farm real estate loans in order to provide funding for guaranteed and direct operating loans. Current legislation calls for program levels of $520 million.

The FmHA's interest rate buy-down program, authorized at $485 million over three years by the farm bill, will continue. Under the buy-down program, the FmHA matches interest reductions by private lenders up to a total of four percentage points to allow farm borrowers to remain in business. Spending under this program will reach about $300 million by the end of 1987, if current estimates are correct. The administration's proposal would not affect the $185 million remaining for the program. In fiscal 1986, the Northeast-Midwest region received 36.9 percent of FmHA expenditures for these programs.

Research and Education

The Cooperative State Research Service (CSRS) and the Extension Service are the main USDA research and education efforts at the state and local level. CSRS administers several programs that fund research at state agricultural experiment stations, land-grant colleges, and other eligible educational institutions. The administration proposal would provide $240 million in budget authority in fiscal 1988, a reduction of $68 million (22 percent) from fiscal 1987 funding of $308 million. The proposal would increase major formula programs and competitive research grants, but would reduce overall funding by $68 million, largely by eliminating grants targeted to specific projects and localities. Outlays would increase by $13.6 million (4.8 percent) to $299 million. In fiscal 1986, $89 million, or about 34 percent of available funds, was awarded to institutions in the Northeast and Midwest.

The Extension Service distributes federal funds to states by statutory formula for use at the county and local level. The program disseminates USDA and land-grant college research and provides a wide range of assistance in home economics, community development, and 4-H youth programs. Federal funds comprise approximately one-third of the resources used by the extension programs. The president's budget proposes to eliminate categorical grants to states, which are estimated to amount to $78 million in fiscal 1987. Instead, the administration wants those programs funded from general formula grants in fiscal 1988 at $238 million, an increase of $8 million over 1987 levels.

The administration's proposed cuts for the Extension Service would reduce fiscal 1988 budget authority by 21 percent to $263 million from the fiscal 1987 level of $332 million. Outlays in fiscal 1988 are estimated at $274 million, down from the fiscal 1987 level of $332 million. In fiscal 1986, the Northeast-Midwest region received $107 million, or about 35 percent, of Extension Service payments to states.

Conservation Reserve

The 1985 farm bill authorized the Conservation Reserve Program (CRP) to shift 45 million acres from farming to conservation. For the first two years of the program, CCC used borrowing authority established by the farm bill. For fiscal 1988, the first year of an appropriations request, the president's budget asks for $1.4 billion for rental payments on contracts signed prior to 1988, as well as for technical assistance and cost-sharing arrangements for conservation measures required by the bill.

Three sign-ups for the conservation program were held during 1986, and nearly 9 million acres of highly erodible cropland were enrolled in the program. The federal government signed nearly 70,000 contracts at an average cost of $45 per acre. Another six million acres must be enrolled to meet the required 15 million acres mandated by the farm bill for 1987. Outlays are expected to reach about $700 million.

U.S. Forest Service

The president's proposal requests total budget authority of $1.628 billion for the U.S. Forest Service for fiscal 1988, down 25 percent from $2.033 billion in fiscal 1987. Four main Forest Service programs (other than trust funds) are established for special purposes: the National Forest System, construction in the national forests, Research, and State and Private Forestry. Funds for the National Forest System and construction in the national forests, spent almost entirely in western states, account for over three-fourths of the total non-trust budget.

The programs of greatest importance to the Northeast-Midwest region, equaling 10 percent of the total, are the Research program, which would be trimmed from $124 million to $121 million, and the State and Private Forestry (S&PF) grant program, which would be cut by 41 percent to $35 million.

The Research program studies ways to protect forests from such threats as Dutch elm disease, gypsy moths, and fire. It also examines ways to harvest and produce forest products through the Forest Products Laboratory in Madison, Wisconsin. Although the proposed research budget would be only slightly below that for fiscal 1987, most of the funds would come from acid rain research, which would be reduced from $12.2 million to $10.6 million.

The administration proposes sharp reductions in the State and Private Forestry program, which helps states and private landowners use their forest resources more productively. It funds research in fire, pest, and disease control, better forest management, and greater wood utilization. In addition to these activities, last year Congress directed this program to study the desirability of establishing a marketing program to help reduce the trade deficit in forest products. Between 1980 and 1985, the U.S. trade balance in forest products shifted from a surplus of $500 million to a deficit of $5.7 billion.

Road construction in the national forests has become the most controversial part of the Forest Service budget. Environmentalists charge that it is expensive, unnecessary, and destructive. Although the administration has proposed to reduce the road program from $229 million in fiscal 1987 to $199 million in fiscal 1988, it still would be above the fiscal 1986 level of $181 million. Last year, the House proposed to reduce road construction to $148 million, and an amendment by Senators William Proxmire (D-WI) and Gordon Humphrey (R-NH) to reduce it to $164 million was narrowly defeated in the Senate.

The Northeast-Midwest region possesses over one-third of the nation's commercial timberland and nearly half its hardwood supply. In 1982, the forest products industry in the region employed 491,000 workers, down from 530,000 in 1977. A report by the Northeastern Area Office of the Forest Service estimated that full use of this resource could create 300,000 new jobs in these states.

D. Rural Development

An adequate federal response to rural and small-city development problems is important to the Northeast and Midwest, where 25 million people live in nonmetropolitan areas. In fact, New York, Pennsylvania, Ohio, and Michigan have a greater proportion of nonmetropolitan residents than all but two western and southern states.

Economic downturns have buffeted small cities during this decade. Recession during the early 1980s brought plant shutdowns throughout the Northeast and Midwest. While the ongoing shift of industrial production affected urban and rural areas alike, its impact was greatest in the 678 nonmetropolitan counties dependent solely on manufacturing. Approximately one-third of these counties were in the Northeast. Similarly, the recent economic crisis in many of the nation's 702 farm-dependent counties has caused soaring unemployment among farmers and workers in farm-related sectors. Half of the farm-dependent counties are located in the Midwest.

Economic recovery in the region's small communities has been uneven. The continuing farm crisis is decimating large parts of the farm belt. Many communities there are as heavily dependent on agriculture and related business as smaller industrial towns are on steel and ancillary industries. These communities need federal and state economic development assistance to help them begin practical community redevelopment programs to create new jobs and attract new investment.

Small communities must stabilize their economies and promote recovery at a time when their own tax revenues are falling; they need help to improve employment, housing, education, and social services. In the past, the federal government has provided a good deal of direct agricultural and related community development assistance to small town and rural America through three agencies:

- the Farmers Home Administration offered community facility, business and industrial loans and guarantees; water and waste disposal grants and guarantees; and rural housing programs;
- the Economic Development Administration made public works, planning, and economic adjustment grants; and
- the Department of Housing and Urban Development provided formula Community Development Block Grants and competitive, targeted Urban Development Action Grants for commercial and industrial development in many small communities.

All of these assistance programs have borne significant cuts since fiscal 1980, and most are slated for elimination in the administration's fiscal 1988 budget request. The president proposes to end all FmHA development loans and guarantees; end all EDA programs; slash housing programs 82 percent, to $378 million; and eliminate the UDAG program completely. The elimination of so many infrastructure and development programs will put even greater demands on the

CDBG program, the only one left relatively intact by the budget proposal. However, the administration seeks to cut the small cities portion of CDBG by $154 million from fiscal 1986 levels, to $753 million in fiscal 1988.

In addition, general revenue sharing, one of the most versatile programs for small communities, expired and in 1986 no further funding is available. Jurisdictions with populations under 10,000 -- many of which receive no other type of federal assistance -- made up more than 85 percent of the program's recipients.

These federal resources have helped small communities surmount obstacles they encounter continually in the development process. Many rural jurisdictions have deteriorating tax bases and often are unable to provide residents with adequate transportation, waste and sewer facilities, or water services. All of these elements are important in spurring economic development, and weigh heavily in business location, retention, and expansion decisions. Some form of federal investment or help often is necessary for economic development to occur in rural areas. Many small communities simply do not have the fiscal capacity to finance and maintain the necessary capital plant, or have the size or diversity of resources to underwrite development projects. Now they face the elimination of the key federal programs that have provided the base for rural development.

The administration believes that economic and community development efforts, both metropolitan and rural, should be the province of state and local governments, private lenders, and capital markets. Therefore, the president's budget proposes to limit federal assistance largely to the CDBG and housing voucher programs. Given the realities of the rural development process, however, these limitations would restrict severely the ability of small-town and rural county governments to finance the physical capacity necessary to sustain economic growth and diversification.

For example, many rural water systems previously supported by FmHA are quasi-governmental or privately owned. As such, they would be ineligible for CDBG assistance. In fact, an FmHA report in April 1986 stated that 24 percent of its water and waste-system borrowers were nonprofit organizations that could not qualify for CDBG assistance. FmHA water programs are slated for termination. Furthermore, tax-exempt bonds are no longer an option for financing many economic development and infrastructure projects. The "essential function" and facility ownership tests included as part of the private activity restrictions in the Tax Reform Act of 1986 will impede the ability of local governments to float tax-exempt bonds to finance these water and waste systems.

Also troubling to officials trying to spur rural development activities is the volatile state of rural financial institutions. The availability of capital on reasonable terms, in the form of venture and operating funds, is critical to economic growth. The condition of rural banks, especially those in the Midwest, has deteriorated over recent years as a result of agricultural credit problems and failures of farm-dependent businesses. Banks with 25 percent or more of their total portfolios in agricultural loans have been hardest hit. In 1984, 59 percent of the nation's problem banks -- those with total capital and loan-loss reserves less than the amount of delinquent loans -- served rural areas. This figure was 48 percent in 1982. From 1983 to 1985, 48 percent of the nation's bank failures were concentrated in just six states with large rural populations: Iowa, Illinois, Kansas, Nebraska, Oklahoma, and Tennessee.

Farmers Home Administration

Business and Community Facility Loans. Two development programs are funded through FmHA's Rural Development Insurance Fund. Community facility loans are made to local governments and nonprofit associations for essential community facilities, infrastructure as well as human-service, and may include related equipment. In fiscal 1986, FmHA provided $92 million in insured loan guarantees to help 192 projects. About $96 million was appropriated for fiscal 1987. The second program provides guaranteed business and industrial loans to public or private organizations to improve, develop, or finance business, industry, and employment opportunities, as well as improve the economic and environmental climate in rural communities. In fiscal 1986, $55 million in guarantees helped 37 rural development projects. Congress authorized $95 million for fiscal 1987.

Taken together, 37 percent of these program resources were targeted to Northeastern and Midwestern states in fiscal 1986. No program authority is proposed for either in fiscal 1988 because the administration believes that "adequate credit resources are available to finance such facilities."

Water and Waste Disposal. FmHA also administers two water and waste-disposal programs, as cited above. FmHA provides grants to public and non-profit agencies and associations for water resource development, storage, treatment, purification, and distribution in rural areas. Projects to collect, treat, and disposal of waste also are funded. Grants are targeted to the most financially needy communities to reduce user costs to reasonable levels. In fiscal 1986, 343 projects received $119 million. Congress provided $111 million for fiscal 1987. Another program makes insured loans to develop, replace, or upgrade water and waste-disposal systems. These loans are made in areas where the median household income falls below the poverty level and the project is needed to meet health or sanitary standards. In fiscal 1986, 698 projects received $325 million in insured loans. The authorized fiscal 1987 level is $330 million. The fiscal 1988 budget proposal seeks no authority for either program. (For additional information on water and waste disposal programs, see the Water Supply and Treatment section.)

Housing. Approximately 43 percent of the nation's inadequate housing is concentrated in small communities and rural areas, although they contain only one-third of the total stock. FmHA administers three major rural housing programs through the Rural Housing Insurance Fund:

- Section 502, home ownership loans for very low, low, and moderate-income persons;

- Section 515 rural rental housing loans; and

- Section 521 rural rental assistance.

These three programs had a combined spending level of $2.8 billion in fiscal 1985 and $2.0 billion in fiscal 1986. Congress approved $2.2 billion for fiscal 1987 to assist nearly 54,000 new units: $1.33 billion for 28,700 Section 502 units; $670 million for 21,223 Section 515 units; and $160 million for 14,511 Section 521 units. The administration's fiscal 1988 budget requests termination of all programs covered by the Rural Housing Insurance Fund.

As in past years, the administration also seeks to eliminate several small, targeted FmHA housing-assistance programs and rescind existing spending authority, including:

- Section 516 farm labor housing (with a fiscal 1987 authority of $9.5 million);
- Section 523 mutual and self-help housing ($8 million in fiscal 1987);
- Section 504 housing repair grants to very low-income elderly persons ($12.5 million); and
- Section 533 rural housing preservation grants ($19.1 million).

The administration proposes to institute a new rural housing voucher program in fiscal 1988 to replace the FmHA rural assistance payments programs; the proposed program would operate like HUD's housing voucher program. The administration seeks 21,500 vouchers for housing units, with an estimated $378.1 million in budget authority.

A number of energy programs, such as low-income housing weatherization, have had important benefits in rural areas. These programs are also proposed for cutback or elimination. (See Energy section for further information.)

Economic Development Administration (EDA)

More than half of all EDA funds are spent on rural development. The agency administers three major programs:

- Title I public works development grants to help in construction and renovation of public facilities ($122.4 million appropriated for fiscal 1987);
- Title II planning grants to states and localities to build and institutionalize economic development capacity ($25.8 million in fiscal 1987); and
- Title IX economic adjustment assistance to combat and reverse the effects of long-term economic deterioration and quickly counter sudden and severe local economic upheavals ($24 million in fiscal 1987).

The administration proposed to eliminate EDA in fiscal 1988 and rescind $124 of the $180 million appropriated for fiscal 1987. Only strong congressional support, especially from members in rural areas, has kept the agency operating with a small program budget. In fiscal 1980, EDA received more than $531 million for economic development programs. (For more detailed information, see the Community and Economic Development section.)

Department of Housing and Urban Development (HUD)

Although metropolitan areas constitute its chief constituency, HUD administers two economic development programs that have helped rural development efforts.

Community Development Block Grants (CDBG). By law, 30 percent of all CDBG funding is reserved for small cities, defined as those with less than 50,000 population. For the most part, these funds are allocated to states on a formula basis and, in turn, are distributed by state governments according to their own criteria. Typically, these factors include project impact, leveraging ratios, and community need.

The administration targeted $788 million to the small cities CDBG program in fiscal 1987 (assuming approval of its program rescission request). The fiscal 1988 budget seeks $753 million, the smallest amount since fiscal 1980. In fiscal 1986, $907 million was distributed to small cities through this program.

Small cities use a significant portion of their grants for economic development projects -- about 21 percent in fiscal 1985. About 60 percent of the states awarded between 10 and 40 percent of their total CDBG resources to meet economic development needs in small cities. Michigan allocated the largest dollar amount in fiscal 1985, $15 million (or 47 percent) of its grant. An additional 30 percent of all state CDBG funds financed public works and infrastructure projects which also supported rural development activities.

Cities between 2,500 and 10,000 population garnered $201 million for 671 projects in fiscal 1985, 25 percent of the national total. About 37 percent ($75 million) were public works projects, and 16 percent ($32 million) economic development projects. About 24 percent (49 million) were earmarked for housing projects.

In fiscal 1985, very small communities (with less than 2,500 population) received 943 grant awards, 36 percent of the national total of $225 million. Nearly two-third of these funds ($140 million) were devoted to public works projects; another 8 percent ($17 million) helped economic development activities. Housing assistance absorbed 25 percent ($55 million) of CDBG funds.

Larger cities (between 10,000 and 50,000) obtained 462 awards or 17 percent of the national total ($136 million). Housing was the most popular activity, with 32 percent ($43 million) in projects. Public works projects claimed 26 percent ($34 million) and economic development assistance received 20 percent ($27 million).

Some 583 rural county awards were made, totaling 22 percent of the grants ($147 million). About 50 percent funded public works projects for $73 million, and $31 million assisted economic development activities. Housing efforts claimed 18 percent ($26 million).

Urban Development Action Grants (UDAG). By law, 25 percent of all UDAG funds are reserved for distressed small cities of less than 50,000 population, which compete only with each other during three annual funding cycles. Since 1978, more than 1,200 projects in 842 small cities around the country have received $1.08 billion in UDAG assistance. Some 45 percent of these projects were industrial in nature; 33 percent helped commercial ventures. These funds have, in turn, attracted nearly $7.3 billion in private investment and are credited with creating more than 162,000 jobs in small cities.

The administration proposes to terminate the UDAG program in fiscal 1988 and rescind all but $20 million of the $225 million appropriated for fiscal 1987. In fiscal 1986, small cities received $79 million in UDAG awards. For additional information on CDBG and UDAG funding levels, project uses, and distribution patterns, see the Community and Economic Development section.

Selected Rural Program Funding
(in millions of dollars)

	1980 Actual	1986 Actual	1987 Estimated[1]	1988 Requested
FmHA Waste and Water Disposal Grants	290	119	111	0
FmHA Waste and Water Loan Guarnatees	700	325	330	0
FmHA Rural Development Loan Guarantees	1,314	151	192	0
FmHA Housing Programs	NA	1,986	2,193	378[2]
CDBG (30 percent small city share)	1,000	907	788	753
UDAG (25 percent small city share)	169	79	5	0
EDA (50 percent rural share)	266	84	90	0
Appalachian Regional Commission	127	117	74	0

---

[1] Includes fiscal 1987 rescission requests.
[2] Estimated cost of proposed rural housing vouchers.

E. Transportation

The administration proposes to cut the Department of Transportation's budget authority from $26.1 billion in fiscal 1987 to $23.6 billion in 1988. It asks for major changes in three areas for fiscal 1988.

- Limit the federal role in mass transit assistance. The federal government now helps states and localities with their mass transit programs through formula grants for capital and operating expenses and discretionary grants. These programs are funded from general revenues and a dedicated gasoline tax. The president's proposal would eliminate discretionary grants and limit the federal role to the management and allocation of the dedicated one-cent per gallon tax for transit; the result would be a 53 percent reduction in funding. The proposal also would require state and local governments to increase the amount they must contribute to obtain matching federal funds from 20 to 50 percent.

- Fund highway construction and repairs to the federal-aid highway system at a level equal to the average annual amount of user-fee receipts, excluding interest, deposited in the highway trust fund. This proposal would consolidate several federal-aid programs and reduce overall funding by 8.4 percent.

- Increase budget authority for the Federal Aviation Administration by 68 percent, from $805 million to $1.35 billion, and funding by 20 percent, from $4.8 billion to $5.8 billion. Most of the increase would be used to modernize the air space system.

Congress must reauthorize several important transportation programs in the first session prior to establishing budget authority for fiscal 1988. The Surface Transportation Assistance Act of 1982 which provides authority for highway, highway safety, and public transportation programs expired on September 30, 1986. The Airport and Airway Improvement Act will expire on September 30, 1987. When the administration sent Congress its budget, it also unveiled a highway reauthorization bill and has promised a public transporatation bill.

By February 1987, Congress already had taken several actions:

- the House passed the Surface Transportation and Uniform Relocation Assistance Act of 1987, (H.R. 2), which included a five-year extension of the Highway Trust Fund and supporting taxes;

- the Senate Finance Committee reported a four-year extension of the Highway Trust Fund and the highway-related taxes;

- the Senate Environment and Public Works Committee amended, then ordered the Federal-Aid Highway Act of 1987, (S. 387), reported to the full Senate; and

- the Senate Banking, Housing and Urban Affairs Committee adopted a four-year public transportation bill that continues the existing transit program structure, funded at $3.2 billion annually (the Committee will add this provision to the highway bill on the Senate floor).

Congressional reauthorization of these transportation programs is of particular concern to the Northeast-Midwest region, where the short construction season forces states to plan and implement their transportation programs quickly. In addition, many states need a reliable flow of federal funds to assure timely completion of multi-year infrastructure programs. (See the tables at the end of this section for a state-by-state breakdown of program funds under the House and Senate bills.)

BUDGET SUMMARY

(in millions of dollars)

	1981	1986	1987	1988	Percent Change 1987-1988 Nominal	Percent Change 1987-1988 Adjusted for Inflation
Transportation						
Urban Mass Transportation Administration						
Formula Grants						
Budget Authority	NA	2,058	2,000	1,374[1]	-31.3	-33.6
Outlays	NA	1,652	1,996	1,481	-25.8	-28.3
Section 3 Discretionary Grants						
Budget Authority	NA	1,053	1,003	0	-100.0	-100.0
Outlays	NA	633	898	808	-10.0	-13.1
Interstate Transfer Grants						
Budget Authority	NA	191	200	0	-100.0	-100.0
Outlays	NA	389	360	174	-51.7	-53.3
Federal-Aid to Highways						
Budget Authority	9,045	14,610	13,387[1]	13,387	0.0	-3.5
Outlays	8,222	13,951	12,491	12,726	1.9	-1.6
Highway Traffic Safety Grants						
Budget Authority	NA	126	110	110	0.0	-3.5
Outlays	NA	136	128	128	0.0	-3.5
Motor Carrier Safety Grants						
Budget Authority	NA	16	66	50	-24.2	-26.8
Outlays	NA	14	27	47	74.1	68.2
Saint Lawrence Seaway						
Outlays	-1,133	1,924	3,076	1,465	-52.4	-54.0
Limitation on Administration Expenses	(1,730)	(1,723)	(1,989)	(2,136)	7.4	3.8

---

[1] Additional authorizing legislation required.

BUDGET SUMMARY
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
			Transportation			
Interstate Commerce Commission						
Budget Authority	75.6	46.1	46.8	13.9[2]	-70.3	-71.3
Outlays	74.2	45.5	46.3	13.9[3]	-70.1	-71.1
Northeast Corridor Improvement Program						
Budget Authority	350	12	0[4]	0.0	NA	NA
Outlays	218	97	118	91.0	-22.9	-25.5
Amtrak						
Budget Authority	881	562	595	0.0	-100.0	-100.0
Outlays	851	680	640	0.0	-100.0	-100.0
Railroad Rehabilitation and Improvement						
Budget Authority	NA	45	9	1	-88.9	-89.3
Outlays	NA	-73	2	-207	NA	NA
Grants in Aid for Airports						
Budget Authority	NA	973	1,017[5]	1,017[1]	0.0	-3.5
Outlays	NA	853	889	950	6.9	3.3

---

[2] Includes a reduction of $34.1 million proposed for later transmittal under proposed legislation.

[3] Includes a reduction of $33.8 million proposed for later transmittal under proposed legislation.

[4] Includes a proposed transfer of $17 million to other accounts for pay raises.

[5] Includes $42 million supplemental under existing legislation.

Mass Transit Assistance

The president proposes large cuts in overall mass transit assistance, from over $3 billion in fiscal 1987 to $1.374 billion in fiscal 1988. This 53.3 percent reduction would come mainly in two programs. First, the formula grants program would be reduced from $2 billion to $1.4 billion by eliminating funding from general revenues and limiting those available to the one-cent federal fuel tax now allocated to mass transit. The proposal also would allocate future fuel tax revenues by formula to all states and local agencies, arguing that all states pay into the fund.

The formula grants program now provides over $2 billion in mass transit operating and capital assistance to local governments for bus and subway systems in urban areas and to states for use in nonurban areas. The formula distributing these funds is based upon revenue vehicle miles, route miles, population, and population density. In fiscal 1986 over 60 percent of these funds were awarded in the Northeast and Midwest, almost 90 percent of which went to large urban areas. In many cases, transit systems would be unable to operate without this aid. If the allocation formula remained the same but the funding dropped as the administration proposes, the region would lose $381 million.

Second, the administration proposes to eliminate all discretionary capital grants, currently funded at $1 billion. The program finances extensive upgrading, expansion, or modernization of commuter rail and existing fixed rail systems; new transit systems; major bus fleet expansion and rehabilitation; and construction of bus-related facilities. Historically, the program's grants have gone to the nation's largest rail transit systems, including those in Boston, Chicago, Cleveland, New York, northeastern New Jersey, Philadelphia, and Pittsburgh.

Federal Aid Highway Funds

The administration requested $13.387 billion in budget authority for federal aid for highways in both fiscal 1987 and 1988, reductions of 8.7 percent from fiscal 1986 levels. The administration would eliminate general revenue funding for this program and fund it entirely from the annual amount of user-fee receipts, less interest, deposited in the Highway Trust Fund. The obligation ceiling, which applies to most federal aid highway programs and which allows states to enter into formal contracts for authorized projects, would be set at $12.787 billion for fiscal 1988. Recent studies have suggested that a $20-billion annual program would be needed to maintain current highway conditions.

Highway Safety

The National Highway Traffic Safety Administration administers the Highway Traffic Safety Grants program on the basis of a statutory formula. The administration has requested $110 million for this program in fiscal 1988, the same as in fiscal 1987. Individual states use this funding to make safety improvements and reduce traffic accidents and fatalities. Most projects involve efforts to control drunk driving, improve child passenger safety, and increase traffic law enforcement.

The administration's budget proposes to spend approximately $18 million in fiscal 1988 for the State Alchohol Safety Incentives Grant program, the same amount as fiscal 1987. This money goes to those states that adopt and implement effective programs to reduce traffic safety problems caused by drunk drivers.

The president's request for the Motor Carrier Safety Grant program for fiscal 1988 is $50 million, down from $66 million for fiscal 1987. This program provides grants to states to enforce federal and state safety standards that are compatible. Uniform standards enhance the coordination of enforcement activities and simplify the safety requirements on interstate trucking companies.

Amtrak

The National Railroad Passenger Corporation is a private entity that receives federal subsidies. In fiscal 1987, Amtrak's budget authority was $595 million. The administration wants to eliminate federal subsidies in fiscal 1988 and dispose of some or all of its assets, the majority of which are in the Boston-Washington corridor. The administration estimates that the termination of Amtrak subsidies and the sale of its assets would reduce the deficit in fiscal 1988 by $1.6 billion.

Amtrak argues that without federal subsidies, it will have no alternative but to terminate virtually all services. In addition, it claims that $3 billion in locomotives, equipment, and facilities would be lost with little salvage value if it were to shut down.

About 65.2 percent of Amtrak passenger traffic is generated in the Northeast and Midwest. In 1985 the region received 76 percent of Amtrak's $265 million in procurement funds.

The president's proposal assumes that Conrail, the frieght railroad serving large areas of the Northeast and Midwest, will be sold through a public stock offering in 1987. The federal government owns 85 percent of Conrail assets.

The administration also wants to eliminate rail freight grants under the local rail service assistance (LRSA) program. LRSA objectives have changed from providing operating subsidies for abandoned lines in the Northeast and Midwest to a national program focusing on track-rehabilitation projects connected to nonabandoned lines. Currently, the program of formula and discretionary grants concentrates on planning and technical assistance, as well as on track rehabilitation, with a federal/state matching ratio of 70/30. Discretionary grants comprise three-fourths of the program.

Federal Aviation Administration

The "continued safe and efficient operation of the National Airspace System" provides the focus for the administration's fiscal 1988 budget request for the Federal Aviation Administration (FAA). The $5.803 billion budget request for fiscal 1988 represents approximately a 20 percent increase over the fiscal 1987 budget authority for FAA. Major safety concerns prompted the administration to request $3.248 billion to modernize the air traffic control system, a 68 percent increase. The president's proposal cites its efforts to avert chaos that could result from the estimated 30 percent increase in flights at the 39 largest airports this decade as a result of deregulation.

The fiscal 1988 request also seeks $1.85 billion for airport improvement projects. In a two-year reauthorization bill, Congress is likely to continue programs financed by the 8 percent passenger ticket tax supporting the Airport and Airway Trust Fund.

Interstate Commerce Commission

The administration plans to eliminate the Interstate Commerce Commission by October 1, 1987. Budget authority for fiscal 1988 would be $13.9 million, reduced from $46.8 million in fiscal 1987. Legislative changes, beginning in 1980, partially deregulated the surface transportation industry. The administration plans to terminate all remaining economic regulation of the motor carrier, freight forwarder, interstate water carrier, and bus industries. Most railroad activities regulated by ICC would be transferred to the Department of Transportation, except for antitrust matters, which would be transferred to the Department of Justice. Handling of consumer complaints regarding the movement of household goods would be transferred to the Federal Trade Commission.

St. Lawrence Seaway

The U.S. St. Lawrence Seaway Development Corporation and the Canadian St. Lawrence Seaway Authority operate the seven locks between Montreal and Lake Ontario, that provide the Great Lakes with a vital shipping link with the Atlantic seacoast and the rest of the world. The Seaway Corporation also promotes and markets Great Lakes shipping and the Seaway system. Over a billion metric tons of cargo, valued at more than $200 billion, have moved through the Seaway since it opened in 1959. However, concern has been expressed that Seaway use may have stabilized below its potential. While the Army Corps of Engineers estimates that the Seaway has an annual capacity of 80-110 million metric tons of cargo per year. The average annual tonnage from 1978 through 1984 was 49.8 million tons; it never has exceeded 58 million tons in any single year.

The Seaway's total operating expenses are estimated to be $14.7 million in fiscal 1987, and $12.5 million in fiscal 1988. The difference is attributable to the special $2 million appropriation in fiscal 1987 for repair of the Eisenhower Lock at Massena, New York. Administrative costs would rise from $1.99 to $2.14 million in fiscal 1988. The balance of expenditures would provide for normal operations and maintenance of the Seaway system.

In the past, the Seaway Development Corporation has been financed through tolls collected directly from shippers. H.R. 6, passed in October 1986, would effectively sever the link between the tolls and the cost of administering and operating the Seaway.

The tolls -- estimated at $11.6 million in fiscal 1988 -- would continue to be collected and would be added to the harbor maintenance trust fund established through a new ad valorum tax on all cargoes handled at U.S. coastal and Great Lakes ports. However, Seaway shippers would receive a full rebate from the fund for that portion of their contribution attributable to the Seaway tolls. In turn, the U.S. would assume 100 percent of the cost of operating and maintaining the Seaway. Thus, Great Lakes shippers would be placed on a par with the shippers at coastal ports by not having to pay an extra charge for moving cargo through the Seaway.

The administration's budget proposes to return to direct financing of the Seaway through tolls collected from shippers. The proposal does not include a rebate provision, and would thus double-tax Great Lakes shippers, who would face both Seaway tolls and the value-added tax imposed on cargo unloaded at Great Lakes ports. H.R. 6 authorized $39.2 million in federal funds for continued rehabilitation of the Eisenhower and Snell locks, as well as $148 million for the construction of a second lock at the Sault St. Marie. The administration's budget does not request funding to begin work on either of these projects, both of which are a high priority for Great Lakes shippers.

EPA Wastewater Treatment
Construction Grants Program: Fiscal 1986
(in millions of dollars)

Region and State	Fiscal 1986 Allocations[1]	Percent of Total	EPA Needs Survey Amount[2]	Percent of Total
New England				
Connecticut	27.3	1.6	1,968	1.9
Maine	14.8	0.9	971	0.9
Massachusetts	74.3	4.3	4,928	4.6
New Hampshire	16.1	0.9	1,211	1.1
Rhode Island	16.3	0.9	801	0.8
Vermont	3.6	0.2	287	0.3
Total	152.4	8.8	10,166	9.6
Mid-Atlantic				
Delaware	3.2	0.2	303	0.3
Maryland	62.9	3.6	1,538	1.4
New Jersey	53.9	3.1	4,934	4.6
New York	230.8	13.3	15,489	14.6
Pennsylvania	56.6	3.3	4,955	4.7
Total	407.4	23.5	27,219	25.6
Midwest				
Illinois	74.4	4.4	4,344	4.1
Indiana	53.4	3.1	2,200	2.1
Iowa	27.8	1.6	1,161	1.1
Michigan	2.2	0.1	3,729	3.5
Minnesota	28.2	1.6	1,622	1.5
Ohio	111.9	6.5	5,075	4.8
Wisconsin	31.9	1.8	1,876	1.8
Total	329.8	19.1	20,007	18.8
South				
Alabama	17.4	1.0	1,220	1.1
Arkansas	13.0	0.7	638	0.6
District of Columbia	12.9	0.8	299	0.3
Florida	60.5	3.5	5,362	5.1
Georgia	28.8	1.7	1,652	1.6
Kentucky	24.8	1.4	1,960	1.8
Louisiana	20.2	1.2	1,598	1.5
Mississippi	24.3	1.4	805	0.8
North Carolina	31.0	1.8	1,744	1.6
Oklahoma	19.6	1.1	655	0.6
South Carolina	15.7	0.9	1,424	1.3
Tennessee	28.9	1.7	2,414	2.3
Texas	69.9	4.0	4,770	4.5
Virginia	33.1	1.9	1,670	1.6
West Virginia	20.5	1.2	2,084	2.0
Total	420.6	24.3	28,295	26.6*

EPA Wastewater Treatment
Construction Grants Program: Fiscal 1986 (continued)
(in millions of dollars)

Region and State	Fiscal 1986 Allocations[1]	Percent of Total	EPA Needs Survey Amount[2]	Percent of Total
West				
Alaska	11.5	0.7	349	0.3
Arizona	12.5	0.7	931	0.9
California	166.4	9.6	6,674	6.3
Colorado	2.0	0.1	461	0.4
Hawaii	26.5	1.5	636	0.6
Idaho	8.7	0.5	385	0.4
Kansas	12.1	0.7	953	0.9
Missouri	48.7	2.8	3,398	3.2
Montana	6.4	0.4	87	0.1
Nebraska	16.1	0.9	309	0.3
Nevada	8.3	0.5	196	0.2
New Mexico	4.7	0.3	208	0.2
North Dakota	5.2	0.3	47	0.0
Oregon	26.6	1.5	1,272	1.2
South Dakota	4.1	0.2	150	0.1
Utah	8.6	0.5	718	0.7
Washington	44.8	2.6	3,781	3.6
Wyoming	6.9	0.4	66	0.1
Total	420.1	24.3*	20,621	19.4*
Northeast	559.8	32.4	37,385	35.2
Midwest	329.8	19.1	20,007	18.8
Northeast and Midwest	889.6	51.5	57,392	54.0
South	420.6	24.3	28,295	26.6
West	420.1	24.3	20,621	19.4
South and West	840.7	48.6	48,916	46.0
U.S. Total[3]	1,730.3	100.1*	106,308	100.0

---

*Regional percentage figures may be more or less than percentage summations due to rounding.

[1] From EPA Report: EPA-92500 10/17/86. Status of Combined Funds Under P.L. 92-500 Authority. Figures rounded to the nearest $100,000.

[2] This column contains EPA's assessments of funds needed, in 1984 dollars, for construction of publicly owned treatment facilities to the year 2000.

[3] U.S. figures do not include Puerto Rico or the Territories.

SOURCE: Staff calculations from U.S. Environmental Protection Agency, Grants Administration Division, and Roy F. Weston, Inc., 1984 Needs Survey Report to Congress: Assessment of Needed Publicly Owned Wastewater Treatment Facilities in the United States (Washington, D.C.: Environmental Protection Agency, February 1985).

Federal Water Resources Spending: Fiscal 1985
(in thousands of dollars)

Region and State	Corps of Engineers and Bureau of Reclamation[1]	Farmers Home Administration Rural Water[2]	Soil Conservation Service Watershed Operations	Total	Per Capita Average (in dollars)
New England					
Connecticut	5,437	8,349	1,382	15,168	5
Maine	2,768	16,038	429	19,235	16
Massachusetts	13,348	8,740	1,932	24,020	4
New Hampshire	5,307	4,973	342	10,622	10
Rhode Island	5,211	4,113	56	9,380	10
Vermont	1,400	3,370	1,518	6,288	12
Total or Average	33,471	45,583	5,659	84,713	7
Mid-Atlantic					
Delaware	17,182	-	911	18,093	29
Maryland	26,572	5,829	846	33,247	7
New Jersey	24,532	5,722	875	31,129	4
New York	39,876	11,866	3,010	54,752	3
Pennsylvania	74,460	20,518	4,448	99,426	8
Total or Average	182,622	43,935	10,090	236,647	6
Midwest					
Illinois	154,341	5,110	5,484	164,935	14
Indiana	3,092	9,382	1,701	14,175	3
Iowa	32,019	9,120	4,695	45,834	16
Michigan	48,339	13,704	800	62,843	7
Minnesota	43,931	8,626	3,496	56,053	13
Ohio	54,964	14,730	6,103	75,797	7
Wisconsin	17,957	2,710	2,698	23,365	5
Total or Average	354,643	63,382	24,977	443,002	9
South					
Alabama	56,717	10,678	2,845	70,240	17
Arkansas	118,956	16,377	4,964	140,297	59
District of Columbia	656	-	-	656	1
Florida	63,807	12,616	869	77,292	7
Georgia	57,085	14,522	2,287	73,894	12
Kentucky	84,655	20,919	1,757	107,331	29
Louisiana	376,430	21,186	5,910	403,526	90
Mississippi	48,339	15,081	26,336	89,756	34
North Carolina	57,602	31,758	3,319	92,679	15
Oklahoma	75,580	9,285	11,038	95,903	32
South Carolina	38,323	12,355	2,177	52,855	16
Tennessee	55,869	15,921	4,604	76,394	16
Texas	172,631	19,985	16,985	209,601	13
Virginia	34,116	22,248	10,304	66,668	12
West Virginia	76,605	10,534	37,810	124,949	65
Total or Average	1,317,371	233,465	131,205	1,682,041	22

Federal Water Resources Spending: Fiscal 1985
(in thousands of dollars)

Region and State	Corps of Engineers and Bureau of Reclamation[1]	Farmers Home Administration Rural Water[2]	Soil Conservation Service Watershed Operations	Total	Per Capita Average (in dollars)
West					
Alaska	20,465	274	-	20,739	39
Arizona	220,645	3,532	6,034	230,211	69
California	209,799	7,369	13,625	230,793	9
Colorado	100,623	240	1,086	101,949	31
Hawaii	8,368	-	2,928	11,296	11
Idaho	32,363	811	827	34,001	34
Kansas	23,148	5,262	4,546	32,956	13
Missouri	124,410	7,020	3,270	134,700	27
Montana	11,715	1,059	865	13,639	17
Nebraska	32,568	1,804	3,793	38,165	24
Nevada	8,758	355	325	9,438	10
New Mexico	45,095	-	2,298	47,393	32
North Dakota	62,224	4,682	402	67,308	99
Oregon	114,801	2,088	1,686	118,575	44
South Dakota	45,088	4,603	444	50,135	71
Utah	71,499	1,523	806	73,828	44
Washington	160,489	9,359	1.671	171,519	38
Wyoming	8,467	582	132	9,181	18
Total or Average	1,300,525	50,563	44,738	1,395,826	24
Northeast	216,093	89,518	15,749	321,360	6
Midwest	354,643	63,382	24,977	443,002	9
Northeast and Midwest	570,736	152,900	40,726	764,362	7
South	1,317,371	233,465	131,205	1,682,041	22
West	1,300,525	50,563	44,738	1,395,826	24
South and West	2,617,896	284,028	175,943	3,077,867	22
U.S. Total[3]	3,188,632	436,928	216,669	3,842,229	16

---

[1] This column combines total fiscal 1986 expenditures for the civil works functions of the U.S. Army Corps of Engineers and fiscal 1986 authorizations (estimated expenditures unavailable) for Bureau of Reclamation water projects.

[2] This column combines water, sewer, and waste disposal loans and grants awarded by the Farmers Home Administration in fiscal 1986.

[3] U.S. figures do not include funds for Puerto Rico or the Territories.

SOURCES: Staff calculations from U.S. Army Corps of Engineers, unpublished data, January 1987; appropriation figures for Bureau of Reclamation projects, *Congressional Record* (Washington, D.C., October 9, 1985), p. H-8595; U.S. Department of Agriculture, Farmers Home Administration, "Status of Loan and Grant Obligation/Allotments or Distribution, Fiscal Year 1986," January 1987 (includes rural water and waste disposal grants and loans); U.S. Department of Agriculture, "Fiscal Year 1986 Obligations," unpublished data, for the Soil Conservation Service Watershed Program, November 12, 1986 (includes flood prevention operations, watershed planning, emergency watershed operations, and small watershed operations.

Farm Program Expenditures[1]
(in thousands of dollars)

		Fiscal 1986			
Region and State	1985 USDA Direct Payments to Farmers	Commodity Credit Corporation (net outlays)	Cooperative State Research Service	Agricultural Extension Service	FmHA Farmer Loan Program (Obligations)
New England					
Connecticut	2,228	820	2,105	2,218	4,268
Maine	3,604	1,690	2,028	2,275	18,292
Massachusetts	2,384	1,102	3,528	3,309	5,476
New Hampshire	1,341	231	1,611	1,554	1,214
Rhode Island	134	24	1,560	1,143	853
Vermont	6,369	8,472	1,789	1,667	10,445
Total	16,060	12,339	12,621	12,166	40,548
Mid-Atlantic					
Delaware	3,216	14,121	2,072	1,533	3,943
Maryland	15,613	71,789	4,462	4,461	8,688
New Jersey	3,954	11,445	2,903	3,570	5,522
New York	43,117	109,819	8,975	10,595	43,111
Pennsylvania	28,609	104,680	7,674	10,890	30,379
Total	94,509	311,854	26,086	31,049	91,643
Midwest					
Illinois	491,492	2,832,668	7,779	10,490	166,812
Indiana	218,300	1,157,764	5,302	8,367	95,658
Iowa	691,136	3,692,123	6,885	8,448	487,369
Michigan	116,621	539,313	8,120	9,131	109,519
Minnesota	480,066	2,381,303	6,587	8,158	342,120
Ohio	149,692	726,771	7,681	10,652	87,104
Wisconsin	152,222	610,213	8,270	8,205	183,468
Total	2,299,529	11,940,155	50,624	63,451	1,472,050
South					
Alabama	60,364	154,430	9,395	9,949	50,136
Arkansas	328,721	765,980	5,118	7,315	111,437
District of Columbia	0	0	807	898	0
Florida	30,128	210,184	8,130	6,767	17,474
Georgia	71,163	191,302	7,885	10,546	76,586
Kentucky	47,085	309,591	6,919	10,430	77,151
Louisiana	182,006	366,562	6,113	7,674	255,817
Mississippi	205,454	614,774	8,343	9,081	139,463
North Carolina	42,581	424,512	10,079	14,413	66,782
Oklahoma	249,477	452,872	5,415	6,497	147,044
South Carolina	34,554	83,802	5,549	7,416	41,103
Tennessee	61,739	244,910	6,748	10,675	76,293
Texas	848,079	1,832,488	13,053	17,216	312,519
Virginia	23,928	128,421	6,699	9,052	30,306
West Virginia	4,314	7,538	2,725	4,441	6,894
Total	2,189,593	5,787,366	102,978	132,370	1,409,005

Farm Program Expenditures[1]
(in thousands of dollars)

Region and State	1985 USDA Direct Payments to Farmers	Fiscal 1986 Commodity Credit Corporation (net outlays)	Fiscal 1986 Cooperative State Research Service	Fiscal 1986 Agricultural Extension Service	Fiscal 1986 FmHA Farmer Loan Program (Obligations)
West					
Alaska	309	506	1,061	1,161	28
Arizona	95,292	133,328	3,272	2,436	6,249
California	301,517	1,058,085	13,069	9,520	67,491
Colorado	141,826	503,300	3,633	3,207	39,265
Hawaii	662	317	3,809	1,355	4,744
Idaho	121,510	264,053	2,433	2,585	74,755
Kansas	482,151	1,215,590	4,654	5,491	144,209
Missouri	187,669	1,767,160	8,343	9,986	147,895
Montana	220,876	286,090	2,166	2,489	138,273
Nebraska	518,369	2,186,426	3,857	4,783	292,748
Nevada	3,853	2,977	1,268	1,195	3,041
New Mexico	44,641	68,122	3,343	2,342	17,247
North Dakota	483,652	1,337,793	2,884	3,211	162,491
Oregon	71,401	130,449	6,394	3,589	33,364
South Dakota	231,988	686,006	2,472	3,255	107,462
Utah	23,554	178,942	2,259	1,835	12,645
Washington	155,066	373,679	7,075	4,292	47,128
Wyoming	20,127	26,551	1,673	1,519	32,721
Total	3,104,463	10,219,374	73,665	64,251	1,331,756
Northeast	110,569	324,193	38,707	43,215	132,191
Midwest	2,299,529	11,940,155	50,624	63,451	1,472,050
Northeast and Midwest	2,410,098	12,264,348	89,331	106,666	1,604,241
South	2,189,593	5,787,366	102,978	132,370	1,409,005
West	3,104,463	10,219,374	73,665	64,251	1,331,756
South and West	5,294,056	16,006,740	176,643	196,601	2,740,761
U.S. Total[2]	7,704,154	28,271,088	265,974	303,282	4,345,003

---

[1] Figures may not add due to rounding.

[2] U.S. totals do not include allocations for Puerto Rico, the Territories, set-asides for small business, obligated balances, or unalloted funds.

SOURCES: Staff calculations from U.S. Department of Agriculture, Office of Budget and Program Analysis, USDA Federal Assistance Award Data System, unpublished data, February 12, 1987; Commodity Credit Corporation, unpublished data, February 11, 1987; Cooperative State Research service, unpublished data, February 12, 1987; Agricultural Extension Service, unpublished data, February 12, 1987; Farmers Home Administration, Finance Office, unpublished data, February 20, 1987.

Public Transportation Assistance: Fiscal 1986[1]

Region and State	Section 9: Urban Assistance		Section 18 Non-Urban Assistance	
	Amount (in thousands of dollars)	Percent of U.S. Total	Amount (in thousands of dollars)	Percent of U.S. Total
New England				
Connecticut	29,420	1.5	667	0.9
Maine	1,409	0.1	737	1.0
Massachusetts	70,522[3]	3.7	1,087	1.5
New Hampshire	1,784	0.1	528	0.7
Rhode Island	12,316[3]	0.6	132	0.2
Vermont	478	*	366	0.5
Total	115,929	6.0	3,517	4.8
Mid-Atlantic				
Delaware	3,024[3]	0.2	191	0.3
Maryland	22,979	1.2	905	1.2
New Jersey	4,490[3]	0.2	903	1.2
New York	511,196[3]	26.6	3,169	4.3
Pennsylvania	129,022[3]	6.7	3,951	5.4
Total	670,711	34.9	9,119	12.4
Midwest				
Illinois	169,198[3]	8.8	2,636	3.6
Indiana	15,461[3]	0.8	2,431	3.3
Iowa	7,471[3]	0.4	1,668	2.3
Michigan	49,523	2.6	2,929	4.0
Minnesota	20,019	1.0	1,701	2.3
Ohio	68,085[3]	3.5	3,584	4.9
Wisconsin	24,598	1.3	1,994	2.7
Total	354,355	18.4	16,943	23.1
South				
Alabama	10,286	0.5	1,791	2.4
Arkansas	3,420	0.2	1,450	2.0
District of Columbia	56,884[3]	3.0	0	0.0
Florida	64,552	3.4	1,950	2.7
Georgia	30,758[3]	1.6	2,407	3.3
Kentucky	10,580[3]	0.5	2,043	2.8
Louisiana	20,657	1.1	1,687	2.3
Mississippi	3,257	0.2	1,626	2.2
North Carolina	13,081	0.7	3,265	4.4
Oklahoma	7,553	0.4	1,480	2.0
South Carolina	6,166	0.3	1,626	2.2
Tennessee	15,900[3]	0.8	2,108	2.9
Texas	79,468	4.1	4,292	5.8
Virginia	18,066	0.9	1,937	2.6
West Virginia	3,154	0.2	1,301	1.8
Total	343,782	17.9	28,963	39.4

Public Transportation Assistance: Fiscal 1986[1]

Region and State	Section 9: Urban Assistance Amount (in thousands of dollars)	Section 9: Urban Assistance Percent of U.S. Total	Section 18 Non-Urban Assistance Amount (in thousands of dollars)	Section 18 Non-Urban Assistance Percent of U.S. Total
West				
Alaska	955	*	195	0.3
Arizona	15,511	0.8	677	0.9
California	275,763	14.3	3,242	4.4
Colorado	20,627	1.1	735	1.0
Hawaii	16,279	0.8	233	0.3
Idaho	1,348	0.1	636	0.9
Kansas	3,587	0.2	1,270	1.7
Missouri	25,128[3]	1.3	1,933	2.6
Montana	1,576	0.1	486	0.7
Nebraska	6,292[3]	0.3	787	1.1
Nevada	3,832	0.2	173	0.2
New Mexico	2,466	0.1	654	0.9
North Dakota	1,340	0.1	400	0.5
Oregon	16,181[3]	0.8	1,149	1.6
South Dakota	959	*	465	0.6
Utah	10,154	0.5	346	0.5
Washington	36,654	1.9	1,271	1.7
Wyoming	900	*	296	0.4
Total	439,552	22.8	14,948	20.3
Northeast	786,640	40.9	12,636	16.8
Midwest	354,355	18.4	16,943	23.1
Northeast and Midwest	1,140,995	59.3	29,579	40.3
South	343,782	17.9	28,963	39.4
West	439,552	22.8	14,948	20.3
South and West	783,334	40.7	43,911	59.8
U.S. Total[2]	1,924,327	100.0	73,488	100.0

---

*Less than 0.1 percent of the U.S. total.

[1] Figures may not add due to rounding.

[2] U.S. totals do not include Puerto Rico or the Territories.

[3] Where monies were apportioned to an urban area that crosses state lines, money is tabled under the state where the major city in the area is located.

SOURCE: Staff calculations from U.S. Department of Transportation, Urban Mass Transportation Administration, Fiscal 1987 UMTA Formula Grant Apportionments, Federal Register, Vol. 51, No. 236, December 10, 1986.

Selected Federal Highway Program Apportionments Contained in H.R. 2[1]

(in thousands of dollars)

Region and State	Interstate Construction		Interstate 4-R		Primary		Bridges		Urban		Secondary	
	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total
New England												
Connecticut	46,233	1.8	37,578	1.5	24,843	1.1	51,215	3.5	10,441	1.5	3,887	0.7
Maine	0	0.0	10,795	0.4	14,215	0.6	5,693	0.4	3,638	0.5	5,104	0.9
Massachusetts	477,755	18.3	42,069	1.7	43,877	2.0	47,078	3.3	20,288	2.8	6,011	1.0
New Hampshire	1,096	*	8,166	0.3	11,145	0.5	8,623	0.6	3,638	0.5	2,911	0.5
Rhode Island	0	0.0	8,214	0.3	11,145	0.5	4,099	0.3	3,638	0.5	2,911	0.5
Vermont	0	0.0	6,100	0.2	11,145	0.5	6,756	0.5	3,638	0.5	2,911	0.5
Total	525,084	20.1	112,922	4.5	116,370	5.2	123,464	8.5	45,281	6.3	23,735	4.1
Mid-Atlantic												
Delaware	0	0.0	5,324	0.2	11,145	0.5	3,653	0.2	3,638	0.5	2,911	0.5
Maryland	93,510	3.6	48,107	1.9	33,425	1.5	20,551	1.4	14,315	2.0	5,628	1.0
New Jersey	108,807	4.2	54,202	2.1	52,596	2.4	69,725	4.8	27,947	3.9	5,218	0.9
New York	0	0.0	100,915	4.0	132,568	5.9	146,122	10.1	62,967	8.8	17,709	3.1
Pennsylvania	105,936	4.1	88,732	3.5	106,053	4.7	101,799	7.0	34,145	4.7	22,272	3.9
Total	308,253	11.8	297,280	11.8	335,787	15.0	341,850	23.6	143,012	19.9	53,738	9.3
Midwest												
Illinois	3,107	0.1	94,730	3.8	88,333	3.9	42,895	3.0	39,928	5.6	16,777	2.9
Indiana	10,625	0.4	67,988	2.7	51,707	2.3	25,682	1.8	14,461	2.0	13,611	2.4
Iowa	0	0.0	32,099	1.3	35,053	1.6	32,957	2.3	6,618	0.9	12,797	2.2
Michigan	41,142	1.6	85,548	3.4	81,268	3.6	21,170	1.5	27,435	3.8	17,590	3.0
Minnesota	61,269	2.3	42,100	1.7	43,168	1.9	21,568	1.5	11,002	1.5	14,592	2.5
Ohio	25,844	1.0	125,662	5.0	92,298	4.1	52,373	3.6	33,230	4.6	18,266	3.2
Wisconsin	0	0.0	41,523	1.6	47,481	2.1	33,775	2.3	12,252	1.7	13,569	2.3
Total	141,987	5.4	489,650	19.4	439,308	19.6	230,420	15.9	144,926	20.2	107,202	18.5
South												
Alabama	78,264	3.0	44,965	1.8	41,077	1.8	28,333	2.0	9,418	1.3	12,223	2.1
Arkansas	0	0.0	28,684	1.1	27,839	1.2	21,166	1.5	4,442	0.6	10,378	1.8
District of Columbia	25,009	1.0	3,104	0.1	11,145	0.5	7,954	0.5	3,638	0.5	0	0.0
Florida	220,982	8.5	110,678	4.4	74,061	3.3	21,885	1.5	34,711	4.8	14,380	2.5
Georgia	93,510	3.6	97,861	3.9	55,069	2.5	42,140	2.9	13,844	1.9	15,887	2.7
Kentucky	68,971	2.6	46,232	1.8	38,874	1.7	33,974	2.3	7,400	1.0	12,125	2.1
Louisiana	160,287	6.1	49,212	1.9	38,196	1.7	35,483	2.5	11,799	1.6	9,916	1.7
Mississippi	6,135	0.2	29,216	1.2	31,262	1.4	27,273	1.9	4,639	0.6	10,660	1.8
North Carolina	43,283	1.7	60,802	2.4	63,669	2.8	41,367	2.9	11,273	1.6	18,167	3.1
Oklahoma	8,093	0.3	43,327	1.7	34,166	1.5	27,350	1.9	8,096	1.1	11,800	2.0
South Carolina	18,691	0.7	38,849	1.5	32,420	1.4	10,625	0.7	6,683	0.9	9,302	1.6
Tennessee	8,563	0.3	68,228	2.7	46,232	2.1	57,660	4.0	11,374	1.6	13,440	2.3
Texas	156,554	6.0	220,362	8.7	130,357	5.8	60,967	4.2	46,996	6.5	37,160	6.4
Virginia	94,528	3.6	71,806	2.8	49,064	2.2	19,096	1.3	14,742	2.1	12,957	2.2
West Virginia	1,697	0.1	16,557	0.7	23,323	1.0	37,663	2.6	3,638	0.5	7,589	1.3
Total	984,567	37.7	929,883	36.8	696,754	31.2	472,936	32.7	192,693	26.8	195,984	33.9

Selected Federal Highway Program Apportionments Contained in H.R. 2[1]

(In thousands of dollars)

Region and State	Interstate Construction Amount	Interstate Construction Percent of U.S. Total	Interstate 4-R Amount	Interstate 4-R Percent of U.S. Total	Primary Amount	Primary Percent of U.S. Total	Bridges Amount	Bridges Percent of U.S. Total	Urban Amount	Urban Percent of U.S. Total	Secondary Amount	Secondary Percent of U.S. Total
West												
Alaska	0	0.0	8,220	0.3	73,393	3.3	3,653	0.3	3,638	0.5	32,057	5.5
Arizona	10,468	0.4	40,615	1.6	30,038	1.3	3,653	0.3	9,398	1.3	9,440	1.6
California	263,273	10.1	280,368	11.1	164,462	7.4	40,985	2.8	92,137	12.8	22,866	4.0
Colorado	52,289	2.0	38,881	1.5	32,374	1.4	16,573	1.1	9,752	1.4	10,329	1.8
Hawaii	116,848	4.5	6,133	0.2	11,145	0.5	3,657	0.3	3,638	0.5	2,911	0.5
Idaho	24,461	0.9	12,101	0.5	18,082	0.8	4,303	0.3	3,638	0.5	7,226	1.2
Kansas	0	0.0	29,662	1.2	32,787	1.5	34,945	2.4	6,186	0.9	11,972	2.1
Missouri	0	0.0	69,719	2.8	50,851	2.3	64,766	4.5	13,618	1.9	15,535	2.7
Montana	5,038	0.2	12,283	0.5	26,187	1.2	9,207	0.6	3,638	0.5	10,935	1.9
Nebraska	0	0.0	19,376	0.8	25,349	1.1	23,553	1.6	4,005	0.6	9,574	1.7
Nevada	3,107	0.1	12,334	0.5	18,297	0.8	3,653	0.3	3,638	0.5	6,938	1.2
New Mexico	0	0.0	23,707	0.9	24,991	1.1	5,535	0.4	3,827	0.5	9,489	1.6
North Dakota	0	0.0	8,872	0.4	17,369	0.8	7,232	0.5	3,638	0.5	7,145	1.2
Oregon	24,539	0.9	33,868	1.3	29,098	1.3	11,971	0.8	7,235	1.0	9,910	1.7
South Dakota	0	0.0	10,962	0.4	18,601	0.8	9,852	0.7	3,638	0.5	7,745	1.3
Utah	51,689	2.0	21,847	0.9	19,107	0.9	3,653	0.3	5,115	0.7	6,358	1.1
Washington	98,940	3.8	53,449	2.1	38,888	1.7	28,059	1.9	12,605	1.8	10,061	1.7
Wyoming	0	0.0	11,988	0.5	17,068	0.7	3,653	0.3	3,638	0.5	7,067	1.2
Total	650,652	24.9	694,385	27.5	648,087	30.0	278,903	19.3	192,982	26.8	197,558	34.2
Northeast	833,337	31.9	410,202	16.3	452,157	20.2	465,314	32.1	188,293	26.2	77,473	13.4
Midwest	141,987	5.4	489,650	19.4	439,308	19.6	230,420	15.9	144,926	20.2	107,202	18.5
Northeast and Midwest	975,324	37.4	899,852	35.7	891,465	39.9	695,734	48.0	333,219	46.4	184,675	31.9
South	984,567	37.7	929,883	36.8	696,754	31.2	472,936	32.7	192,693	26.8	195,984	33.9
West	650,652	24.9	694,385	27.5	648,087	30.0	278,903	19.3	192,982	26.8	197,558	34.2
South and West	1,635,219	62.6	1,624,268	64.3	1,346,841	60.2	751,839	51.9	385,675	53.6	393,542	68.1
U.S. Total[2]	2,610,543	100.0	2,524,120	100.0	2,236,306	100.0	1,447,573	100.0	718,894	100.0	578,217	100.0

---

*Less than 0.1 percent of the U.S. total.

[1] Figures may not add due to rounding.

[2] U.S. figures do not include allocations for Puerto Rico or the Territories.

SOURCE: Staff calculations from "Estimated Apportionments for Proposed FY 1987 Non-Interstate and FY 1988 Interstate Programs under H.R. 2 as Passed"; provided by the Coalition of Northeastern Governors, January 21, 1987.

Selected Federal Highway Program Apportionments for Fiscal 1987 Contained in S. 387[1]

(in thousands of dollars)

	Interstate and Primary		Bridges		Urban		Secondary	
Region and State	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total	Amount	Percent of U.S. Total
New England								
Connecticut	138,797	1.8	44,253	3.5	10,441	1.5	3,887	0.7
Maine	42,450	0.5	4,919	0.4	3,638	0.5	5,104	0.9
Massachusetts	291,712	3.7	40,678	3.2	20,288	2.8	6,011	1.0
New Hampshire	39,369	0.5	7,451	0.6	3,638	0.5	2,911	0.5
Rhode Island	39,369	0.5	3,542	0.3	3,638	0.5	2,911	0.5
Vermont	39,592	0.5	5,837	0.5	3,638	0.5	2,911	0.5
Total	591,289	7.5	106,680	8.5	45,281	6.3	23,735	4.1
Mid-Atlantic								
Delaware	39,369	0.5	3,156	0.3	3,638	0.5	2,911	0.5
Maryland	193,680	2.5	17,757	1.4	14,315	2.0	5,628	1.0
New Jersey	201,034	2.6	60,246	4.8	27,947	3.9	5,218	0.9
New York	241,571	3.1	126,258	10.0	62,967	8.8	17,709	3.1
Pennsylvania	360,094	4.6	87,961	7.0	34,145	4.7	22,272	3.9
Total	1,035,748	13.2	295,378	23.5	143,012	19.9	53,738	9.3
Midwest								
Illinois	200,734	2.6	37,063	2.9	39,928	5.6	16,777	2.9
Indiana	133,965	1.7	22,191	1.8	14,461	2.0	13,611	2.4
Iowa	88,477	1.1	28,477	2.3	6,618	0.9	12,797	2.2
Michigan	217,875	2.8	18,292	1.5	27,435	3.8	17,590	3.0
Minnesota	163,281	2.1	18,636	1.5	11,002	1.5	14,592	2.5
Ohio	242,433	3.1	45,253	3.6	33,230	4.6	18,266	3.2
Wisconsin	99,492	1.3	29,184	2.3	12,252	1.7	13,569	2.3
Total	1,146,257	14.6	199,096	15.8	144,926	20.2	107,202	18.5
South								
Alabama	225,438	2.9	24,481	1.9	9,418	1.3	12,223	2.1
Arkansas	71,586	0.9	18,289	1.5	4,442	0.6	10,378	1.8
District of Columbia	66,799	0.8	6,873	0.5	3,638	0.5	0	0.0
Florida	345,931	4.4	18,910	1.5	34,711	4.8	14,380	2.5
Georgia	225,974	2.9	36,411	2.9	13,844	1.9	15,887	2.7
Kentucky	111,527	1.4	29,356	2.3	7,400	1.0	12,125	2.1
Louisiana	221,206	2.8	30,660	2.4	11,799	1.6	9,916	1.7
Mississippi	80,712	1.0	23,566	1.9	4,639	0.6	10,660	1.8
North Carolina	172,051	2.2	35,743	2.8	11,273	1.6	18,167	3.1
Oklahoma	88,847	1.1	32,272	2.6	8,096	1.1	11,800	2.0
South Carolina	95,897	1.2	9,181	0.7	6,683	0.9	9,302	1.6
Tennessee	130,054	1.7	49,822	4.0	11,374	1.6	13,440	2.3
Texas	498,213	6.3	52,679	4.2	46,996	6.5	37,160	6.4
Virginia	201,353	2.6	16,500	1.3	14,742	2.1	12,957	2.2
West Virginia	58,406	0.7	32,543	2.6	3,638	0.5	7,589	1.3
Total	2,593,994	33.0	417,286	33.1	192,693	26.8	195,984	33.9

Selected Federal Highway Program Apportionments for Fiscal 1987 Contained in S. 387[1] (continued)

(in thousands of dollars)

Region and State	Interstate and Primary Amount	Interstate and Primary Percent of U.S. Total	Bridges Amount	Bridges Percent of U.S. Total	Urban Amount	Urban Percent of U.S. Total	Secondary Amount	Secondary Percent of U.S. Total
West								
Alaska	111,599	1.4	3,156	0.3	3,638	0.5	32,057	5.5
Arizona	117,433	1.5	3,156	0.3	9,398	1.3	9,440	1.6
California	773,906	9.8	35,413	2.8	92,137	12.8	22,866	4.0
Colorado	152,097	1.9	14,320	1.1	9,752	1.4	10,329	1.8
Hawaii	142,903	1.8	3,160	0.3	3,638	0.5	2,911	0.5
Idaho	72,502	0.9	3,718	0.3	3,638	0.5	7,226	1.2
Kansas	87,141	1.1	30,194	2.4	6,186	0.9	11,972	2.1
Missouri	142,858	1.8	55,961	4.4	13,618	1.9	15,535	2.7
Montana	84,127	1.1	7,956	0.6	3,638	0.5	10,935	1.9
Nebraska	63,606	0.8	20,351	1.6	4,005	0.6	9,574	1.7
Nevada	56,732	0.7	3,156	0.3	3,638	0.5	6,938	1.2
New Mexico	85,321	1.1	4,782	0.4	3,827	0.5	9,489	1.6
North Dakota	54,236	0.7	6,249	0.5	3,638	0.5	7,145	1.2
Oregon	90,272	1.1	10,344	0.8	7,235	1.0	9,910	1.7
South Dakota	60,749	0.8	8,513	0.7	3,638	0.5	7,745	1.3
Utah	105,032	1.3	3,156	0.3	5,115	0.7	6,358	1.1
Washington	228,599	2.9	24,245	1.9	12,605	1.8	10,061	1.7
Wyoming	67,339	0.9	3,156	0.3	3,638	0.5	7,067	1.2
Total	2,496,452	31.7	240,986	19.1	192,982	26.8	197,558	34.2
Northeast	1,627,037	20.7	402,058	31.9	188,293	26.2	77,473	13.4
Midwest	1,146,257	14.6	199,096	15.8	144,926	20.2	107,202	18.5
Northeast and Midwest	2,773,294	35.3	601,154	47.7	333,219	46.4	184,675	31.9
South	2,593,994	33.0	417,286	33.1	192,693	26.8	195,984	33.9
West	2,496,452	31.7	240,986	19.1	192,982	26.8	197,558	34.2
South and West	5,090,446	64.7	658,272	52.3	385,675	53.6	393,542	68.1
U.S. Total[2]	7,863,740	100.0	1,259,426	100.0	718,894	100.0	578,217	100.0

---

[1] Figures may not add due to rounding.

[2] U.S. figures do not include allocations for Puerto Rico or the Territories.

SOURCE: Staff calculations from "Estimated Apportionments for FY 1987 Interstate and Non-Interstate Programs," based on S. 387, as provided by the Coalition of Northeastern Governors.

SECTION FOUR: ENERGY

As in previous years, the president's budget proposal calls for steep reductions in or elimination of many programs regarded as essential in developing local energy resources and curbing energy consumption.

The Northeast-Midwest region has a particular concern for energy programs because it pays the nation's highest energy prices, but produces less than one-third the amount of the energy it consumes. Federal energy programs that would be reduced or eliminated under the budget request have promoted efficient energy use and helped stem the outflow of capital spent on energy purchases. As shown in the table at the end of this section, the Northeast spent almost $91 billion on energy in 1984, while the value of its primary fossil fuel production in that year was only about $3 billion. The Midwest spent almost $92 billion, while producing only $8 billion. In sharp contrast, the South spent $156 billion, offset by $100 billion in production. Similarly, the West spent $99 billion, with $45 billion worth of production. A few states in the South and West accounted for most of the production: Louisiana, $31 billion; Oklahoma, $10 billion; Texas, $42 billion; Alaska, $12 billion; California, $11 billion; and Wyoming, $7 billion.

The president's request would cut budget authority for energy conservation by 42.7 percent, for fossil energy by 32.7 percent, for solar and renewables by 40.0 percent, and for non-defense nuclear energy by 7.4 percent. Low-income energy assistance would be cut by 32.1 percent on top of last year's reduction of 9.3 percent. The request would provide $128 million for filling the Strategic Petroleum Reserve at a rate of 35,000 barrels a day, in contrast to the present daily fill rate of 75,000 barrels. The administration proposes to sell the five federal power marketing administrations (PMAs), and assumes that the Southeastern and Alaska Power Administrations would be sold by the end of 1989. His request also assumes passage of legislation requiring PMAs to repay the federal investments made in the past on a fixed, straight-line amortization schedule. In addition, the administration proposes to reduce the Rural Electrification Administration's direct loan activity by 74 percent in 1988, terminating the program by 1990. It also assumes sale of the Naval Petroleum Reserves at Elk Hills, California, and Teapot Dome, Wyoming.

Total outlays for civilian energy programs would be approximately $2.3 billion in fiscal 1988, a 26 percent decrease from fiscal 1987. In contrast, the total budget for Atomic Energy Defense in the Energy Department would be funded at $7.8 billion, an increase of 5.1 percent.

The president's request assumes the continuation of some energy tax expenditures. These incentives would total $490 million in fiscal 1988, a reduction of 27.9 percent from fiscal 1987. Windfall Profit Tax receipts, which came to $2.251 billion in fiscal 1986, would disappear due to the decline in oil prices. In fact, $30 million would be refunded to producers in fiscal 1987.

BUDGET SUMMARY

(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
			Energy Conservation			
Energy Conservation						
Budget Authority	709	426	150[1]	86[2]	-42.7	-44.6
Outlays	743	483	426[3]	152[4]	-64.3	-65.5
Solar Bank						
Budget Authority	--[5]	0	1[6]	0	--	--
Outlays	--[5]	32	13	1	-92.3	-95.8
Low-Income Home Energy Assistance Program (LIHEAP)						
Budget Authority	1,850	2,008	1,822	1,237	-32.1	-34.4
Outlays	1,730	2,046	1,838	1,291	-29.8	-32.1
			Energy Supply Research and Development			
Nuclear[7]						
Budget Authority	1,445	959	908	841	-7.4	-10.5
Outlays	NA	NA	NA	NA	NA	NA
Fossil						
Budget Authority	672	309	251[8]	169[10]	-32.7	-35.0
Outlays	NA	336	335[9]	221[11]	-34.0	-36.3
Solar and Other Renewables						
Budget Authority	657	169	145	87	-40.0	-42.0
Outlays	NA	NA	NA	NA	NA	NA
Clean Coal Technology Program[12]						
Budget Authority	--	--	0	50	--	--
Outlays	--	--[13]	26	146	561.5	442.6
Energy Information Administation						
Budget Authority	90	58	60	62	3.3	-0.2
Outlays	84	64	61	59	-3.3	-6.6
			Power Marketing Administrations			
Alaska Power Administration						
Budget Authority	3	3	3	3	0.0	-3.4
Outlays	3	3	3	3	0.0	-3.4

BUDGET SUMMARY (continued)
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Bonneville Power Administration						
Budget Authority	NA	404	328	206	-37.2	-39.3
Outlays	-5	-27	-24	-156	550.0	528.0
Southeastern Power Administration						
Budget Authority	2	0	20	27	35.0	30.4
Outlays	2	13	23	27	17.4	13.4
Southwestern Power Administration						
Budget Authority	28	29	25	17	-32.0	-34.3
Outlays	33	27	39	30	-23.1	-25.7
Western Area Power Administration						
Budget Authority	142	195	240	296	23.3	19.2
Outlays	132	262	215	285	32.6	28.1
Total, Power Administrations						
Budget Authority	175	636	616	548	-11.0	-14.1
Outlays	164	219	216	135	-37.5	-39.6

---

[1] Includes proposed rescission of $84 million.

[2] Includes $5 million proposal for later transmittal under existing legislation.

[3] Includes proposed rescission proposal of $22 million.

[4] Includes proposed rescission of $52 million.

[5] Approximately $250,000 in new budget authority and outlays in fiscal 1981.

[6] Reappropriation of $1.2 million.

[7] Includes magnetic fusion, nuclear energy (minus space and defense power systems), civilian radioactive waste research and development, and remedial action and waste technology.

[8] Includes proposed rescission of $44 million.

[9] Includes proposed rescission of $13 million.

[10] Includes $7 million proposed for later transmittal under existing legislation.

[11] Includes proposed rescission of $22 million and $2 million proposed for later transmittal under existing legislation.

[12] The Clean Coal Technology program was funded from a transfer of fiscal 1980 budget authority from the Synthetic Fuels Corporation and will be obligated in the following way: fiscal 1986, $99 million; fiscal 1987, $149 million; and fiscal 1988, $149 million.

[13] $259,000.

The states in the Northeast-Midwest region remain more vulnerable than other parts of the country to energy supply disruptions and related price increases. All are net energy importers, producing on average 28 percent of the energy they consume, versus the national average of 88 percent. Although the recent decline in world oil prices provided some relief, the Department of Energy predicts a 4.9 percent increase in heating oil prices between 1987 and 1988. Retail natural gas and electricity prices also are predicted to increase, by 4.0 and 4.3 percent, respectively.

Current federal policy -- both spending programs and tax incentives -- favors investment in capital-intensive energy sources such as oil, gas, and large-scale electricity generation. This emphasis continues despite the potential of existing alternative energy technologies and of substantial energy efficiency gains in both existing building stock and new plant and equipment.

Certain federal energy programs have proved helpful to the region in weatherizing its older housing, developing new energy-efficient technologies, and using its extensive coal resources cleanly. These initiatives have lessened the region's dependence on outside energy sources and held down total energy expenditures. Efficient energy use also serves to maintain the competitiveness of the region's industries. The cutback or elimination of federal energy efforts could undercut the progress made since the steep energy price rises of the 1970s.

A. Energy Conservation

The Department of Energy's conservation budget is divided into two major categories: grants to state and local governments for energy assistance and energy conservation research and development (R & D). The president's request would cut combined budget authority for these programs by 43 percent, from $150 million in fiscal 1987 (assuming a proposed rescission of $84 million) to $86 million in 1988. The state and local assistance programs would be eliminated. Conservation R & D would be cut by 50 percent.

Energy conservation grants provide funds to state and local governments to promote conservation activities under four separate grant programs: low-income weatherization assistance, institutional conservation (also known as the schools and hospitals program), state energy conservation planning, and the Energy Extension Service. Budget authority in fiscal 1987 totaled $213.5 million for the grant programs and for program management; the request for fiscal 1987 would provide no money for grants and $6 million for program management needed to close out federal responsibilities. (The funding history of these programs may be found in the accompanying table.) In fiscal 1987, 62 percent of the weatherization assistance grants will be allocated to states in the Northeast and Midwest. (See the table at the end of this section for a state-by-state breakdown.)

Administration budget documents justify the elimination of these programs by indicating that funds will be made available to the states through settlements from oil companies that violated federal petroleum price controls illegally overcharged consumers. In the settlements approved to date, courts have been guided by the principle of providing restitution to aggrieved consumers. Restitution has taken the form of state-administered energy assistance programs. Using the settlement funds in lieu of federal appropriations for these programs, as the president proposes, would have the same impact as diverting

Energy Conservation Budget Authority
(in millions of dollars)

	1986 Actual	1987 Estimate	1988 Request
State and Local Assistance			
Weatherization	182.1	64.6[3]	0.0
Schools and Hospitals	44.9	1.3[4]	0.0
State Conservation Planning	17.9	0.0	0.0
Energy Extension Service	7.5	0.0	0.0
Other[1]	10.1	13.5	6.0
Total	262.6	213.5[5]	6.0
Research and Development			
Industrial	40.7	35.0	16.0
Transportation	57.5	56.1	22.4
Buildings and Community Systems	37.9	30.5	14.6
Multi-Sector	25.9	28.3	20.4
Other[2]	11.5	11.9	6.7
Total	173.5	161.8	80.1
Use of Prior Year Funds and Other Adjustments	-9.9	-225.5	--
Total Energy Conservation[1]	426.2	149.7	86.1

---

[1] Includes Territories Assistance and Program Direction.

[2] Includes Facilities, Policy and Management, and Cooperative Venture R&D Pools.

[3] Includes proposed rescission of $64.6 million.

[4] Includes proposed rescission of $1.3 million.

[5] For fiscal 1987, includes $134.1 million available for program activities from xthe Petroleum Violation Escrow Account under the terms of the Petroleum Overcharge Distribution and Restitution Act of 1986.

the oil overcharge settlements into the federal treasury and away from overcharged consumers. Such a move would violate the intent of court-ordered restitution, which directed that the funds supplement rather than supplant federal funding. While the federal government provided only $1.8 billion for low-income weatherization from fiscal 1975 through fiscal 1987 (excluding a proposed rescission), the Congressional Budget Office estimated in January 1984 that the weatherization of all eligible low-income homes within ten years would cost $28.5 billion. State use of petroleum violation funds provides a source of funding necessary to supplement federal appropriations.

States in the Northeast-Midwest region receive a large share of the weatherization and low-income energy assistance grants under distribution formulas that take into consideration factors such as energy prices and weather. The replacement of federal appropriations for these programs with oil overcharge monies, which are allocated without regard to these factors, would result in the loss to the region of millions of dollars in energy assistance. For example, of the $250 million cut from the low-income energy and weatherization assistance program in fiscal 1987, the region would have received $158 million; $250 million allocated according to the oil overcharge formula would provide only $111 million to these states, a loss of $48 million.

The president's budget requests a cut of 50 percent in energy conservation research and development, from $161.8 million in fiscal 1987 to $80.1 million in 1988. The goal of the federal conservation R & D program is to expand the technological base industry can draw upon to develop new products and processes for the commercial marketplace. The program, therefore, helps bring into use new energy-efficient products and improves the competitiveness and trade posture of the region's industries, many of which rely on older, energy-inefficient technologies. Cutbacks in federal energy R & D also threaten the international competitiveness of U.S. firms marketing such products as solid-state flourescent lighting ballasts, permanent-magnet motors, and absorption heat pumps.

B. Low-Income Home Energy Assistance Program (LIHEAP)

The administration is requesting $1.2 billion for LIHEAP, a 32.1 percent reduction from fiscal 1987. LIHEAP provides block grants to states to help pay the fuel bills of low-income families by making direct cash payments to eligible households, fuel vendors, or, in some cases, public housing operators. The program also provides energy crisis assistance and permits states to set aside 15 percent of their LIHEAP money for the weatherization of low-income homes. Because of its cold weather, older housing, high prices, heavy oil dependence, and large low-income population, the Northeast-Midwest region will receive 64 percent of LIHEAP funds in fiscal 1987. (See the table at the end of this section for a state-by-state breakdown.)

The ability of LIHEAP to meet low-income heating and cooling needs has declined over the past several years. In 1980 federal energy assistance represented roughly 32 percent of the estimated $4.9 billion spent on the heating and cooling needs of eligible low-income households. In 1985, with the heating and cooling expenses of eligible households up to an estimated $12.5 billion, the $2.1 billion provided by LIHEAP met only 17 percent of the need. Thus the portion of low-income heating and cooling needs met by federal assistance has declined by nearly half during the 1980s. Put another way, while the amount spent on heating and cooling by eligible low-income households more than doubled from 1980 to 1985 (due to price increases and expanded eligibility), federal assistance increased by only 31.3 percent.

Energy price increases are predicted by the U.S. Department of Energy for 1988. Heating oil prices are expected to increase 5 percent; natural gas, 4 percent; and electricity, 4 percent over fiscal 1987. Higher energy costs particularly burden low-income households, which pay a disproportionate share of their budgets for energy even though their consumption is lower. For low-income households, home energy costs represent about 15 percent of income, about four times the percentage of an average household. Low-income households also have the least ability to weatherize their homes, purchase more energy-efficient appliances, or make other energy conservation investments.

C. Energy Supply Research and Development

The administration has requested $841 million for civilian nuclear research and development in fiscal 1988, a 7.4 percent decrease from fiscal 1987. The $169 million requested for fossil fuel R & D would represent a 32.7 percent reduction, and the $87 million asked for solar and other renewables would be a 40 percent decrease from fiscal 1987.

The fossil fuel program, which provides for long-term research and development, would suffer the largest cut, primarily because the coal R and D budget would be reduced by $93.8 million. This program funds research in coal liquefaction, surface coal gasification, control technology and coal preparation, combustion systems, fuel cells, and heat engine programs, in addition to advanced research at universities, national laboratories, and the Energy Technology Centers.

Coal is the primary fossil fuel resource in the Northeast-Midwest region; in 1984, the region accounted for 25 percent of the nation's coal production. Most of this coal has high sulphur content, and expanded utilization depends on efficient, cost-effective technologies to reduce emissions. In 1984, 60 percent of the region's electricity was generated from coal.

The administration proposes to increase the excise tax receipts on coal mine operators for the Black Lung Disability Trust Fund by $357 million in 1988 and to stop subsidizing interest costs. The fund will be $2.9 billion in debt by the end of 1988. The proposed changes, together with some benefit reforms, would eliminate the trust fund deficit by the year 2007.

The administration proposes $50 million in new budget authority for the clean coal technology program. Current program funding would be made available in accordance with provisions of the 1985 Continuing Resolution (99-190): $99.4 million in fiscal 1986; $149.1 million in 1987; and $149.1 million in 1988. This funding comes from a reserve of $750 million for clean coal technology established in 1984. The reserve finances the federal share of construction and operation of facilities that demonstrate clean coal technologies for future commercial applications. (For a more complete discussion of the clean coal technology program, see the budget analysis for natural and physical resources.)

Budget authority of $87 million for solar and other renewables in fiscal 1988 represents a 40 percent reduction from $145 million in fiscal 1987. Expanded development of safe, indigenous solar and other renewable energy resources is important if states in the region are to increase their energy independence. Small dam hydropower is an old, familiar technology in the region, and alcohol fuels have been used with increasing success by farmers in the Midwest. Biomass is another technology that makes use of available resources, whether municipal waste or wood. Continued funding for new solar and renewable initiatives would increase the ability of states in the Northeast and Midwest to cope with fluctuations in world energy prices and disruptions of energy supplies, and it would help keep dollars in the region that currently go to other states and countries.

Under current law, gasohol and certain other alcohol fuels are exempted from federal excise taxes on gasoline and diesel fuel. These exemptions, along with others, would be repealed effective October 1, 1987, under the

administration's proposal. (Public bus operators are fully exempted from federal gasoline, diesel fuel, and other federal excise taxes; in general, private bus operators are fully or partially exempted from these taxes. State and local governments also are exempted from all federal highway excise taxes.) Repeal of these exemptions would result in increased receipts to the highway trust fund of $0.8 billion in 1988.

D. Energy Information Administration (EIA)

Budget authority in fiscal 1987 for EIA is $60 million. Under the administration's proposal, EIA would receive $62 million in fiscal 1988, a decrease of $1.9 million after adjusting for inflation.

To meet its projected budget, EIA proposes to continue three publications of particular interest to Congress -- the Financial Reporting System, the State Energy Data Report, and the State Energy Price and Expenditures Report. However, EIA is proposing to drop the state oil price and inventory monitoring program, referred to as the Heating Oil Grants Program (costing $200,000). The Heating Oil Grants Program provides states with funding for a heating oil inventory and price monitoring program, initiatives that allow the states to track the retail price of fuel oil for residential customers on a biweekly basis. In fiscal 1986, 13 states in the Northeast-Midwest region participated in the program.

E. Electricity

The administration has proposed $548 million in budget authority for power marketing administrations (PMAs) in fiscal 1988, an 11 percent decrease from 1987. More significantly, the administration wants to sell the Alaska and Southeastern Power Administrations by the end of 1989, and the other three PMAs in subsequent years. The sale of the PMAs would contribute $1.8 billion to the federal treasury in 1989, $2.6 billion in 1990; $5.4 billion in 1991; and $4.0 billion in 1992. The fiscal 1987 budget also proposes to modify PMA capital investment repayment practices through legislation. These modifications would require repayment of the unpaid balance of the federal investment on a fixed schedule. It would increase neither the interest rate on the borrowing nor the total amount owed.

PMAs receive large taxpayer subsidies because they repay the federal treasury at interest rates well below the treasury's cost of borrowing. For example, the second powerhouse at the Bonneville Dam, a $639 million investment, was placed in service during 1981-1983 and is being repaid at an interest rate of 3.25 percent. Treasury long-term interest rates at that time ranged from 11.1 percent to 13.9 percent. The subsidy for this investment alone will total $2.5 billion, according to the administration. The total Treasury subsidy to the Bonneville Power Administration (BPA) will be $62 million per year until 2020, when BPA plans to repay the debt.

The Northeast-Midwest region is the only part of the country not served by a power marketing administration, even though it is the region with the highest electricity rates. Average electricity prices varied in 1985 from 15.6 cents/kWh in New York City to 2.0 cents/kWh in Seattle, a 780 percent difference. In 1984, average electricity prices in Connecticut were 300 percent higher than in the state of Washington.

Estimates of the need for new generation in the the Northeast-Midwest region vary widely, but most predict some need for new generation by the year 2000. Several strategies have been proposed for meeting that projected demand and keeping costs down: increased purchase of bulk power from Canadian and domestic utilities, conservation and load management, cogeneration, and development of small-scale renewables. Several institutional barriers limit these options, however, including the lack of a marketing structure, limited transmission capacity, and the need for regulatory changes. The Congressional Research Service suggests that regional approaches to energy planning and increased reliance on market prices could result in a cheaper future supply of electricity.

Representatives Bruce F. Vento (D-MN) and James M. Jeffords (R-VT), co-chairs of the Northeast-Midwest Congressional Coalition's Electricity Task Force, and Representative Edward J. Markey (D-MA), who chaired the Subcommittee on Energy Conservation and Power in the 99th Congress, introduced the Regional Power Planning and Regulatory Coordination Act (H.R. 3074). This legislation would provide the approval needed for regions to evaluate the most environmentally sound, lowest cost sources to meet projected demand, require the implementation of policies to encourage transmission, and change regulatory practices.

The administration proposes to reduce Rural Electrification Administration (REA) direct loan activity for electric cooperatives from $1.5 billion in 1987 to $383 million in 1988, to $191 million in 1989, and to terminate it in 1990. To ensure continued credit availability, most borrowers would be eligible for a new program of privately originated loans with an REA guarantee of 70 percent of the loan principal.

The administration also is proposing to increase existing fees from utilities to recover 50 percent of Nuclear Regulatory Commission (NRC) and Federal Emergency Management Administration (FEMA) costs for regulating nuclear power plants. These fees will increase receipts an estimated $100 million a year beginning in 1987.

Comparison of Energy Expenditures and Fossil Fuel Production: 1984

(in millions of dollars)

Region and State	Total State Energy Expenditures	Value of Fossil Fuel Production
New England		
Connecticut	5,557	0
Maine	1,941	0
Massachusetts	9,755	0
New Hampshire	1,502	0
Rhode Island	1,417	0
Vermont	830	0
Total	21,002	0
Mid-Atlantic		
Delaware	1,260	0
Maryland	7,332	114
New Jersey	14,448	0
New York	26,330	124
Pennsylvania	20,474	3,226
Total	69,844	3,464
Midwest		
Illinois	22,136	2,740
Indiana	11,550	1,098
Iowa	5,754	13
Michigan	15,904	1,415
Minnesota	7,415	0
Ohio	20,987	2,315
Wisconsin	8,005	0
Total	91,751	7,581
South		
Alabama	7,665	2,121
Arkansas	4,450	873
District of Columbia	1,164	0
Florida	17,798	434
Georgia	10,818	5
Kentucky	6,551	4,734
Louisiana	13,541	31,204
Mississippi	4,379	1,441
North Carolina	10,424	0
Oklahoma	6,625	10,447
South Carolina	5,740	0
Tennessee	8,952	253
Texas	44,899	41,705
Virginia	9,596	1,271
West Virginia	3,802	5,044
Total	156,404	99,532

Comparison of Energy Expenditures and Fossil Fuel Production: 1984 (continued)
(in millions of dollars)

Region and State	Total State Energy Expenditures	Value of Fossil Fuel Production
West		
Alaska	1,698	11,656
Arizona	5,269	201
California	40,677	10,911
Colorado	5,476	1,819
Hawaii	2,000	0
Idaho	1,619	0
Kansas	5,384	2,849
Missouri	8,976	173
Montana	1,648	1,410
Nebraska	3,034	185
Nevada	1,912	37
New Mexico	2,655	5,288
North Dakota	1,523	1,864
Oregon	4,470	8
South Dakota	1,232	45
Utah	2,730	1,609
Washington	7,236	56
Wyoming	1,424	6,592
Total	98,963	44,703
Northeast	90,846	3,464
Midwest	91,751	7,581
Northeast and Midwest	182,597	11,045
South	156,404	99,532
West	98,963	44,703
South and West	255,367	144,235
U.S. Total[1]	437,937	155,280

---

[1] Totals may not add due to rounding.

SOURCES: Staff calculations based on U.S. Department of Energy, Energy Information Administration, State Energy Price and Expenditure Report, 1984 (Washington, D.C., December 4, 1986), passim; Natural Gas Annual 1984, Volume 1 (Washington, D.C., December 31, 1985), page 13; Petroleum Supply Annual, 1984, Volume I (Washington, D.C., June 1985), p. 45; Petroleum Marketing Annual, 1985, Volume I (Washington, D.C., December 16, 1986), p. 20; and Coal Production, 1984 (Washington, D.C., November 8, 1985), pp. 32 and 36.

Low-Income Energy Expenditures and Programs
(in thousands of dollars)

	Low-Income Home Energy Assistance Program		
Region and State	Households Receiving Assistance Fiscal 1986	Allocation Fiscal 1987	Weatherization[1] Assistance Program Fiscal 1987
New England			
Connecticut	77,916	38,191	1,365
Maine	60,182	24,742	1,599
Massachusetts	140,586	76,394	3,164
New Hampshire	25,426	14,460	847
Rhode Island	28,946	12,575	642
Vermont	19,500	10,838	717
Total	352,556	177,200	8,334
Mid-Atlantic			
Delaware	13,194	5,069	358
Maryland	93,887	29,242	1,284
New Jersey	176,427	70,920	2,660
New York	1,029,000	231,565	9,696
Pennsylvania	397,323	124,385	6,254
Total	1,709,831	461,181	20,252
Midwest			
Illinois	400,000	105,706	5,770
Indiana	151,271	47,861	2,744
Iowa	115,000	33,919	2,319
Michigan	287,000	100,358	6,381
Minnesota	130,415	72,302	4,772
Ohio	395,712	93,512	5,366
Wisconsin	216,795	65,083	3,782
Total	1,696,193	518,741	31,134
South			
Alabama	98,214	15,651	894
Arkansas	73,381	11,943	849
District of Columbia	14,000	5,931	414
Florida	172,600	24,765	372
Georgia	110,000	19,580	1,001
Kentucky	120,600	24,906	1,856
Louisiana	37,733	16,001	473
Mississippi	64,000	13,418	603
North Carolina	177,388	34,510	1,562
Oklahoma	79,664	14,387	1,005
South Carolina	89,403	12,430	641
Tennessee	76,780	25,230	1,699
Texas	315,000	41,200	1,294
Virginia	114,483	35,620	1,690
West Virginia	73,572	16,483	1,302
Total	1,616,818	312,055	15,655

Low-Income Energy Expenditures and Programs (continued)
(in thousands of dollars)

Region and State	Low-Income Home Energy Assistance Program Households Receiving Assistance Fiscal 1986	 Allocation Fiscal 1987	Weatherization[1] Assistance Program Fiscal 1987
West			
Alaska	11,300	9,990	935
Arizona	36,000	7,569	412
California	419,496	83,963	2,528
Colorado	63,500	29,275	2,157
Hawaii	3,958	1,972	162
Idaho	41,200	11,419	971
Kansas	46,855	15,577	1,100
Missouri	141,135	42,223	2,539
Montana	23,000	13,394	1,132
Nebraska	36,597	16,774	1,235
Nevada	13,000	3,555	336
New Mexico	55,171	9,476	809
North Dakota	18,469	14,550	1,220
Oregon	79,506	22,690	1,292
South Dakota	24,124	11,817	1,079
Utah	46,000	13,604	938
Washington	85,000	37,321	1,996
Wyoming	14,500	5,447	526
Total	1,158,811	350,616	21,367
Northeast	2,062,387	638,381	28,586
Midwest	1,696,193	518,741	31,134
Northeast and Midwest	3,758,580	1,157,122	59,720
South	1,616,818	312,055	15,655
West	1,158,811	350,616	21,367
South and West	2,775,629	662,671	37,022
U.S. Total	6,534,209	1,819,793[2]	96,743[3]

---

[1] Assumes passage of proposed rescission of $64.6 million.

[2] Does not include $2,468 allocated to the Territories.

[3] Totals may not add due to rounding.

SOURCES: Staff calculations from U.S. Department of Health and Human Services, Family Support Administration, Office of Family Assistance, Report on the Low-Income Energy Assistance Program as Requested by the Senate Committee on Appropriations (Washington, D.C., September 26, 1986); "Low-Income Energy Assistance Information Memorandum," December 12, 1986; and U.S. Department of Energy, Office of Low-Income Weatherization Assistance, unpublished data, February 1987.

SECTION FIVE: DEFENSE

As has been the case since President Reagan took office in 1981, the adminstration is requesting large budget increases for Department of Defense (DoD) programs in fiscal 1988. The pattern of distribution and purpose of these expenditures -- which include spending for procurement, research and development, personnel, and military construction -- have a significant impact on the economy of the nation and the Northeast-Midwest region.

Under the president's request, total budget authority for DoD military programs would increase by $19.1 billion in fiscal 1988 to $312.0 billion, up 6.5 percent from the $292.9 billion request in fiscal 1987. Outlays would increase by $15.3 billion, or 5.4 percent, over current levels (assuming congressional approval of a $2.8 billion fiscal 1987 supplemental appropriations request). The proposed budget reflects the administration's continuing desire to increase funding for national defense significantly. Annual budget increases at the unadjusted rate of approximately 9.4 percent are projected from fiscal 1988 through fiscal 1992.

Under the limits of the Gramm-Rudman-Hollings deficit reduction act, nondefense programs may have to be cut to allow for these substantial increases in the defense budget. In general, the region's share of federal expenses for domestic programs more closely reflects its population share (43 percent of the U.S. population in 1986) than is the case for defense expenditures. The Northeast and Midwest region received only 33.4 percent of defense spending dollars for prime contracts, research and development, payroll, and military construction -- substantially below its share in both absolute and per capita dollars (see summary table below).

Fiscal 1985 Defense Expenditures and Population Data

	United States	Northeast-Midwest Region	Percent of U.S. Total
Population (1986 Census Bureau Estimates)	241,078,000	103,919,000	43.1
Defense Expenditures (in millions of dollars)			
Payroll	75,948.9	15,938.3	21.0
Research and Development	29,628.2	12,175.3	41.1
Military Construction	4,093.1	695.9	17.0
Military Prime Contracts	140,096.3	54,659.4	39.0
TOTAL	249,766.5	83,468.9	33.4

Budget Summary

(in billions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Military Personnel[1]						
Budget Authority	64.61	67.79	74.20	78.81	6.2	2.6
Outlays	64.14	71.51	70.81	78.15	10.4	6.6
Operations and Maintenance						
Budget Authority	55.55	94.89	79.67	86.07	8.0	4.4
Outlays	51.92	75.26	76.71	81.37	6.1	2.5
Procurement						
Budget Authority	48.03	92.51	85.85	83.97	-2.2	-5.5
Outlays	35.19	76.52	82.70	82.80	0.1	-3.3
Research and Development						
Budget Authority	16.61	33.61	36.72	43.72	19.1	15.0
Outlays	15.28	32.28	34.18	38.27	12.0	8.2
Military Construction						
Budget Authority	3.40	5.28	5.38	6.59	22.5	18.4
Outlays	2.46	5.07	4.95	5.19	4.9	1.3
Family Housing						
Budget Authority	2.00	2.80	3.12	3.48	11.5	7.8
Outlays	1.72	2.82	2.77	3.01	8.7	5.0
Other						
Budget Authority	2.03	5.26	0.68	1.23	81.0	74.8
Outlays	-0.61	2.93	2.79	1.21	-57.0	-58.1
Offsetting Receipts						
Budget Authority	0.00	-0.75	-0.70	-0.75	7.1	3.5
Outlays	0.00	-0.75	-0.70	-0.75	7.1	3.5
Subtotal DoD						
Budget Authority	179.39	281.39	284.93	303.30	6.5	2.9
Outlays	156.10	265.64	274.20	289.30	5.5	1.9
Atomic Energy						
Budget Authority	3.66	7.29	7.48	8.05	7.6	4.0
Outlays	3.40	7.45	7.44	7.82	5.1	1.6
Defense-Related						
Budget Authority	0.37	0.47	0.52	0.62	19.2	15.2
Outlays	0.28	0.29	0.61	0.61	0.0	-3.4
Total National Defense						
Budget Authority	182.41	289.15	292.93	311.97	6.5	2.9
Outlays	159.77	273.38	282.25	297.55	5.4	1.9

---

[1] Military personnel includes allowances for net military and civilian pay raises and benefits.

The president's proposal requests fiscal 1988 defense outlays of $297.6 billion, 29.1 percent of total federal spending. In comparison, defense spending was 27.5 percent of outlays in fiscal 1987, and 22.7 percent in fiscal 1980. Administration estimates show defense outlays rising to 31.5 percent of total federal spending in fiscal 1992. Defense spending would total almost $2 trillion dollars in the six fiscal years 1987 through 1992.

Defense spending would equal 6.3 percent of the Gross National Product in fiscal 1988, according to administration estimates, but would decline to 6.0 percent in fiscal years 1991 and 1992. The defense share was 5.0 percent of GNP in fiscal 1980, and 6.6 percent in fiscal 1986.

Despite steep increases in total defense outlays and the positive economic impact of these expenditures on such states as Massachusetts and Connecticut, the region's percentage share of defense spending has not increased significantly since 1981. Within the region, the Midwest receives the smallest share of all defense spending categories, especially in R & D and prime contracts.

The military construction category showed the largest percentage growth (22.5 percent) in the defense budget request. Only 15.9 percent of fiscal 1986 military construction funds went to Northeastern and Midwestern states. Budget authority for research and development (R & D) includes an increase of 19.1 percent, or $7.0 billion.

Budget authority requested for procurement, which incorporates military prime contracts, would decline in fiscal 1988 for the second year in a row. Outlays for procurement would be about the same as fiscal 1987, a decline of 3.3 percent when adjusted for inflation. In fiscal 1986, the Northeast and Midwest received 39.4 percent of military prime contracts, up slightly from the year before.

Budget authority for military personnel would rise by 6.2 percent, which would include pay raises of 4.3 percent and 2.0 percent, respectively, for military and civilian personnel. In fiscal 1985, only 21 percent of payroll was distributed in the Northeast-Midwest region, the same as in the previous year.

Research and Development

The $43.7 billion budget request in fiscal 1988 for R & D represents an increase of $7.0 billion, or 19.1 percent, over 1987 levels, and over two and one-half times the level of defense R & D spending of fiscal 1981. Outlays would increase by $4.0 billion, or 12.0 percent, over fiscal 1987 levels. The Department of Defense would spend 63 percent of total federal funds requested for research and development in fiscal 1988. (See the Economic Competitiveness section for other R & D activities.)

R & D activities help to maintain the nation's scientific and technological position in the world, and DoD expenditures exert a strong influence over the direction of these endeavors. As foreign competition expands, advances stemming from R & D are increasingly important to the basic and high-technology manufacturing industries in the Northeast and Midwest, which must adapt technological innovation to enhance their economic competitiveness. The Northeast-Midwest region received 41 percent of DoD research and development obligations in fiscal 1985. (For further details, see the table at the end of this section.)

Procurement

The president's proposal requests $84.0 billion in budget authority for procurement in fiscal 1988, a decrease of $1.9 billion, or 2.2 percent, from fiscal 1987 levels. Outlays would grow at a slow 0.1 percent rate. Procurement is one of the largest categories of defense spending and, except for the last two years, one of the fastest growing. Procurement, shown here by data on the distribution of military prime contracts, is of great importance to the Northeast and Midwest. The large amounts that prime contracts often involve can have a major impact on the economies of communities and states. Procurement activity also can be shifted more easily than other types of defense spending such as military construction and payroll.

Within the region, New York, Massachusetts, Connecticut, and Ohio received the largest dollar amounts of military prime contracts in fiscal 1986. Connecticut, Massachusetts, and Maryland were the only states in the region to exceed the national per-capita average for such awards. All seven Midwestern states were below the national average of $564, with the region as a whole averaging $322. (For a state-by-state breakdown, see the table at the end of this section.)

Because the region has received a disproportionately small share, the Northeast-Midwest Congressional Coalition has initiated efforts to help regional firms compete effectively for defense procurement contracts. The Defense Logistics Agency's labor surplus area test program was the first such program targeting purchases of common defense goods to areas of high unemployment.

The labor surplus program was followed in 1984 by the Procurement Technical Assistance Cooperative Agreement Program (PTACA), which allows cooperative agreements between the Department of Defense and state and local governments and nonprofit organizations to provide technical assistance to businesses seeking to bid for federal contracts. This assistance usually takes the form of expertise in identifying bidding opportunities, explaining bid procedures, and supplying necessary technical information required for bid preparation. Firms involved receive help in obtaining new business, expanding output, and bringing additional money and jobs into the community.

By helping companies identify and act on opportunities to sell to the government, these organizations can broaden the defense industrial base and reduce government procurement costs through increased competition. In 1986, a Coalition-sponsored amendment changed the criteria to make procurement outreach centers run by nonprofit organizations serving economically distressed areas also eligible for a higher federal match.

Congress funded PTACA at $2 million in 1984, $5 million in 1985, and $7.5 million in fiscal 1986. The administration is requesting $6 million for this program in fiscal 1988, the same level it requested for fiscal 1987.

Military Personnel

The $78.8 billion budget request for military personnel represents an increase of $4.6 billion, or 6.2 percent. This includes a $2.5 billion increase in budget authority for 2 percent civilian and 4.3 percent military pay raises and benefits. Military personnel outlays would increase by $7.3 billion.

The location of military personnel is of concern to the states because the money paid to personnel is spent largely in the immediate area and can have an important effect on the local economy. The distribution of military personnel is heavily skewed against the Northeast and Midwest. Less than 20 percent of all DoD personnel, and only 13.7 percent of active duty personnel, were located in the region in fiscal 1983. The placement of one-half of a light division at Fort Drum, New York, and the choice of Staten Island as a home port for a new battleship group should help reduce the disparity. The region's share of the military payroll in fiscal 1985 was 21 percent.

Military Construction

Budget authority for military construction would increase 22.5 percent in fiscal 1988, as in fiscal 1987 the largest percentage growth in the defense budget. The actual dollar increase of $1.2 billion is relatively small, however, and outlays would grow by only 1.3 percent. The Northeast-Midwest region, which has 33 percent of all military installations, received only 15.9 percent of military construction funds in fiscal 1986. Thirteen of the 18 states in the region received less than one percent of the U.S. total; only 11 of the 32 states in the South and West received less than one percent. The expenditure of military construction funds at a base frequently assures that the base will not be closed or its mission discontinued in the near future. The low percentage of military construction spending in the region could threaten the existence of some of the remaining installations, and thus cause disruption in local economies.

The following tables give a breakdown of the distribution among states of military prime contract awards for fiscal 1986 and of selected defense programs for fiscal 1985 and 1986, including payroll, research and development, and military construction. These categories have been chosen to represent defense spending because they are the most accurate and current measures available of how defense dollars are spent among the states. These direct expenditures can result in significant gains for local economies, and may also have additional indirect economic impacts not reflected in the tables.

Selected Defense Expenditures

Region and State	Fiscal 1985				Fiscal 1986	
	Payroll[2]		Research and Development[3]		Military Construction[4]	
	Amount (millions of dollars)	Percent of U.S. Total[1]	Amount (millions of dollars)	Percent of U.S. Total[1]	Amount (millions of dollars)	Percent of U.S. Total[1]
New England						
Connecticut	541.6	0.71	471.9	1.59	25.0	0.59
Maine	367.9	0.48	15.4	0.05	6.3	0.15
Massachusetts	849.1	1.11	2,483.9	8.38	28.8	0.68
New Hampshire	402.4	0.53	100.8	0.34	2.2	0.05
Rhode Island	336.6	0.44	286.1	0.97	19.6	0.46
Vermont	58.0	0.08	13.4	0.05	0.0	0.00
Total	2,555.6	3.36	3,371.5	11.38	81.9	1.94
Mid-Atlantic						
Delaware	191.8	0.25	20.6	0.07	17.4	0.41
Maryland	2,455.4	3.23	2,481.5	8.38	100.9	2.39
New Jersey	255.2	1.95	1,446.8	4.88	34.0	0.80
New York	1,305.2	1.72	1,958.1	6.61	215.3	5.09
Pennsylvania	2,207.8	2.91	669.6	2.26	52.8	1.25
Total	7,638.2	10.06	6,576.6	22.20	420.4	9.94
Midwest						
Illinois	1,707.5	2.25	193.7	0.65	69.2	1.64
Indiana	775.6	1.02	122.3	0.41	24.5	0.58
Iowa	159.3	0.21	49.2	0.17	5.4	0.13
Michigan	808.1	1.06	292.7	0.99	46.0	1.09
Minnesota	275.1	0.36	525.6	1.77	2.9	0.07
Ohio	1,682.7	2.22	1,029.5	3.47	20.0	0.47
Wisconsin	336.2	0.44	14.2	0.05	3.4	0.08
Total	5,744.5	7.56	2,227.2	7.52	171.4	4.05
South						
Alabama	1,773.5	2.34	574.4	1.85	103.9	2.46
Arkansas	564.5	0.74	3.9	0.01	34.8	0.82
District of Columbia	946.0	1.25	1,392.6	4.70	30.7	0.73
Florida	4,457.0	5.87	717.1	2.42	168.8	3.99
Georgia	2,818.1	3.71	128.2	0.43	445.7	10.54
Kentucky	1,227.3	1.62	26.2	0.09	63.7	1.51
Louisiana	991.7	1.31	38.4	0.13	30.2	0.71
Mississippi	914.9	1.20	91.5	0.31	37.7	0.89
North Carolina	2,807.5	3.70	163.1	0.55	162.8	3.85
Oklahoma	1,545.4	2.03	19.1	0.06	108.1	2.56
South Carolina	2,150.8	2.83	15.2	0.05	46.5	1.10
Tennessee	775.2	1.02	82.5	0.28	27.0	0.64
Texas	5,904.7	7.77	1,049.9	3.54	270.4	6.39
Virginia	7,740.2	10.19	1,988.4	6.71	191.0	4.51
West Virginia	153.3	0.20	1.8	0.01	4.9	0.12
Total	34,770.1	45.78	6,265.3	21.15	1,726.2	40.80

Selected Defense Expenditures (continued)

	Fiscal 1985				Fiscal 1986	
	Payroll[2]		Research and Development[3]		Military Construction[4]	
Region and State	Amount (millions of dollars)	Percent of U.S. Total[1]	Amount (millions of dollars)	Percent of U.S. Total[1]	Amount (millions of dollars)	Percent of U.S. Total[1]
West						
Alaska	603.9	0.80	13.1	0.04	130.4	3.08
Arizona	1,128.3	1.49	348.4	1.18	37.9	0.90
California	11,869.9	15.63	7,704.3	26.00	655.7	15.50
Colorado	1,491.3	1.96	234.4	0.79	80.2	1.90
Hawaii	1,934.5	2.55	14.0	0.05	88.3	2.09
Idaho	224.2	0.30	1.0	0.00	17.6	0.42
Kansas	805.5	1.06	103.7	0.35	129.1	3.05
Missouri	1,189.9	1.57	555.3	1.87	25.1	0.59
Montana	165.2	0.22	0.3	0.00	6.0	0.14
Nebraska	510.7	0.67	2.0	0.01	7.0	0.17
Nevada	390.8	0.51	116.4	0.39	55.6	1.31
New Mexico	775.5	1.02	1,319.8	4.45	48.3	1.14
North Dakota	276.5	0.36	0.5	0.00	65.6	1.55
Oregon	335.4	0.44	29.5	0.10	15.7	0.37
South Dakota	176.3	0.23	0.7	0.00	75.9	1.79
Utah	833.1	1.10	166.5	0.56	59.0	1.39
Washington	2,396.0	3.15	577.5	1.95	274.7	6.49
Wyoming	133.5	0.18	0.2	0.00	58.4	1.38
Total	25,240.5	33.23	11,187.6	37.76	1,830.5	43.27
Northeast	10,193.8	13.42	9,948.1	33.58	502.3	11.87
Midwest	5,744.5	7.56	2,227.2	7.52	171.4	4.05
Northeast and Midwest	15,938.3	20.99	12,175.3	41.09	673.7	15.93
South	34,770.1	45.78	6,265.3	21.15	1,726.2	40.80
West	25,240.5	33.23	11,187.6	37.76	1,830.5	43.27
South and West	60,010.6	79.01	17,452.9	58.91	3,556.7	84.07
U.S. Total	75,948.9	100.00	29,628.2	100.00	4,230.4	100.00

---

[1] Percentages may not total due to rounding.

[2] Figures include active duty military and civilian, reserve, National Guard, and retired pay.

[3] Figures include Department of Defense awards to, and awards administered by, federal agencies, industrial firms, universities and colleges, other nonprofit institutions, and state and local governments.

[4] Figures include active duty, reserve, and National Guard. They do not include family housing.

SOURCES: Staff calculations from U.S. Department of Defense, Atlas/State Data Abstract for the United States, Fiscal Year 1985 (Washington, D.C., 1986); National Science Foundation, Federal Funds for Research and Development, Vol. XXXV (Washington, D.C., 1986); and U.S. Department of Defense, Construction Programs (C-1): Department of Defense Budget for Fiscal Years 1988 and 1989 (Washington, D.C., January 1987).

Military Prime Contract Awards[1]: Fiscal 1986

Region and State	Amount (in millions of dollars)	Percent of U.S. Total[2]	Per Capita Average
New England			
Connecticut	5,441.1	4.0	1,706
Maine	584.2	0.4	498
Massachusetts	8,734.9	6.4	1,498
New Hampshire	471.2	0.3	459
Rhode Island	393.6	0.3	404
Vermont	123.6	0.1	228
Total or Average	15,748.6	11.6	1,236
Mid-Atlantic			
Delaware	224.5	0.2	355
Maryland	4,536.5	3.3	1,016
New Jersey	3,226.5	2.4	423
New York	9,908.4	7.3	558
Pennsylvania	4,191.7	3.1	353
Total or Average	22,087.6	16.2	521
Midwest			
Illinois	1,734.8	1.3	150
Indiana	2,490.1	1.8	452
Iowa	579.8	0.4	203
Michigan	2,353.1	1.7	257
Minnesota	2,354.6	1.7	559
Ohio	5,200.9	3.8	484
Wisconsin	981.4	0.7	205
Total or Average	15,694.7	11.5	322
South			
Alabama	1,603.9	1.2	396
Arkansas	886.7	0.7	374
District of Columbia	956.8	0.7	1,528
Florida	5,664.1	4.2	485
Georgia	3,764.1	2.8	617
Kentucky	557.2	0.4	149
Louisiana	1,497.7	1.1	333
Mississippi	1,633.7	1.2	622
North Carolina	1,049.0	0.8	166
Oklahoma	774.6	0.6	234
South Carolina	521.1	0.4	154
Tennessee	1,156.6	0.9	241
Texas	10,940.2	8.0	656
Virginia	5,402.0	4.0	933
West Virginia	105.4	0.1	55
Total or Average	36,513.1	27.0	469

Military Prime Contract Awards[1]: Fiscal 1986 (continued)

Region and State	Amount (in millions of dollars)	Percent of U.S. Total[2]	Per Capita Average
West			
Alaska	564.7	0.4	1,057
Arizona	2,632.4	1.9	794
California	27,737.8	20.4	1,028
Colorado	1,897.0	1.4	581
Hawaii	562.8	0.4	530
Idaho	62.9	*	63
Kansas	1,954.5	1.4	794
Missouri	5,547.6	4.1	1,095
Montana	62.0	*	76
Nebraska	225.6	0.2	141
Nevada	141.4	0.1	147
New Mexico	565.1	0.4	382
North Dakota	229.2	0.2	338
Oregon	340.1	0.3	126
South Dakota	127.6	0.1	180
Utah	714.1	0.5	429
Washington	2,525.3	1.9	566
Wyoming	92.2	0.1	182
Total or Average	45,982.3	34.0	776
Northeast	37,836.2	28.0	686
Midwest	15,964.7	11.5	322
Northeast and Midwest	53,530.9	39.4	515
South	36,513.1	27.0	469
West	45,982.3	34.0	776
South and West	82,495.4	60.6	601
U.S. Total[3]	136,026.3	100.0	564

---

*Represents a figure of less than 0.05 percent.

[1] These awards include contract actions over $25,000; all figures include procurement for civil functions. Note: Contract work is not necessarily performed in the state where the contract is awarded. Most manufacturing contracts have been attributed to the state where the product will be processed and assembled. If contract work has been performed at more than one plant, the contract is attributed to the location where the largest dollar volume of work is performed. Contracts for transportation and communications services have been attributed to the state where the contractor's home office is located.

[2] Percentages may not add due to rounding.

[3] The U.S. total excludes contract actions not distributed by state, such as those to the U.S. Territories and to classified areas.

SOURCE: Staff calculations from U.S. Department of Defense, _Prime Contract Awards by State -- Fiscal Year 1986_ (Washington, D.C., 1987).

SECTION SIX: ECONOMIC COMPETITIVENESS

The competitiveness of U.S. industries in international markets has become a vital issue to the nation. The importance government, business, labor, and academic leaders attach to this issue is highlighted by the publication of 17 major studies on U.S. competitiveness in the last three years, including the report by the President's Commission on Industrial Competitiveness. Virtually every study has emphasized the challenges that competition from abroad present to the nation's industries -- and the importance of research, development, and technology in maintaining or improving their quality and costs.

The federal government plays a critical role in determining U.S. industries' economic advantage. It funds almost half of the nation's R & D, and therefore exerts great influence on the direction and purpose of private-sector R & D spending. It also sets trade policies that affect import and export activities greatly. The federal budget proposal indicates the administration's priorities for federal R & D efforts and trade through its funding of the many agencies and programs.

All regions of the country are affected by the competitiveness of U.S. industries. However, trade -- both exports and imports -- is of particular interest to states in the Northeast-Midwest region. Because of its substantial farm sector and high share of manufacturing and export-related jobs, the region is affected disproportionately when U.S. exports decline and food and manufactured imports increase. In addition, the region has a large proportion of technology-intensive industries that must develop and incorporate advanced processes and equipment to compete effectively. Federal R & D priorites and spending thus affect regional economic patterns at several levels.

A. Research and Development

Research and development is one of the few categories for which the president has requested an increase in funding for fiscal 1988. The proposal asks for $66.8 billion, an increase of 12 percent over the fiscal 1987 level of $59.5 billion. Most of the additional funds would go to space and defense programs -- in particular the Strategic Defense Initiative (SDI) and nuclear weapons. More than 97 percent of the total fiscal 1988 R & D budget would go for R & D activities. Even though less than 3 percent would be designated for R & D facilities, the proposed $2 billion would mean an increase of $58 million from fiscal 1987.

R & D activities help to maintain the nation's scientific and technological leadership in the world economy. They are particularly important to Northeastern and Midwestern states, where both older manufacturing industries and newer high-technology industries depend upon technological innovation to enhance their economic competitiveness.

BUDGET SUMMARY

(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
R & D Conduct						
Obligations	35,033	52,612	57,631	64,771	12.4	8.6
Outlays	34,252	51,576	54,548	59,108	8.4	4.7
Defense						
Obligations	17,841	34,205	37,533	44,080	17.4	13.5
Outlays	17,039	33,292	35,153	39,112	11.3	7.5
Non-Defense						
Obligations	17,192	18,407	20,098	20,691	3.0	-0.53
Outlays	17,213	18,284	19,395	19,996	3.1	-0.39
R & D Facilities						
Obligations	1,480	1,563	1,914	1,972	3.0	-0.45
Outlays	1,627	1,567	1,762	1,854	5.2	1.70
Total R & D						
Obligations	36,513	54,175	59,545	66,743	12.1	8.3
Outlays	35,879	53,143	56,310	60,962	8.3	4.6
Basic Research[1]						
Obligations	5,108	8,137	8,798	9,110	3.5	0.04
Outlays	4,975	7,996	8,454	8,827	4.4	0.88
National Science Foundation						
Budget Authority	1,036	1,458	1,623	1,893[2]	16.6	12.7
Outlays	981	1,542	1,566	1,801	15.0	11.1
Research and Related Activities						
Budget Authority	952	1,294	1,406	1,635[2]	16.3	12.4
Outlays	904	1,309	1,357	1,559	14.9	11.0
Science and Engineering Education Activities						
Budget Authority	71	53	99	115[2]	16.2	12.2
Outlays	66	74	95	103	8.4	4.8

---

[1] Amounts reported are included in conduct of R & D.

[2] Additional authorizing legislation required.

BUDGET SUMMARY (continued)
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Commerce Department						
Science and Technology						
Budget Authority	1,102	1,382	1,282[3]	1,391[3]	8.5	4.8
Outlays	1,141	1,446	1,554	1,398	-10.0	-13.1
Research and Development						
Obligations	328	394	397	333	-16.1	-19.0
Outlays	334	373	375	314	-16.3	-19.1
Export-Import Bank						
Budget Authority	6,908	0	0	0	0.0	0.0
Outlays	2,066	-1,166.7	-2,389.0	-1,563.5	-34.6	-36.8
Overseas Private Investment Corporation						
Budget Authority	0	0	0	0	0.0	0.0
Outlays	-72	-100.1	-98.1	-92.9	-5.3	-8.5
Foreign Agicultural Service						
Budget Authority	61	79.5	82.2[6]	85.6	4.1	0.61
Outlays	56	90.9	82.3	85.6	4.0	0.49
International Development Assistance						
Multilateral Assistance						
Budget Authority	1,266	1,404	1,479[4]	2,013[5]	36.1	31.5
Outlays	1,291	1,838	1,337[4]	1,867[5]	39.6	34.9
Trade and Development Program						
Budget Authority	NA	18.1	20.0	20.0[2]	0.0	-3.5
Outlays	NA	14.6	16.6	18.6	12.0	8.3

---

[3] Amounts include the administration's proposed changes, such as rescissions and legislative proposals.

[4] Amounts include supplementals under existing legislation.

[5] Amounts include $44.4 million in budget authority and $22.2 million in outlays for a Multilateral Investment Guarantee Agency proposed for later transmittal under proposed legislation.

[6] Includes proposed transfer from other accounts for pay raises and retirement contributions.

BUDGET SUMMARY (continued)
(in millions of dollars)

					Percent Change 1987-1988	
	1981	1986	1987	1988	Nominal	Adjusted for Inflation
Office of the United States Trade Representative						
Budget Authority	9.4	12.6	13.5[2]	15.2[2]	12.6	8.8
Outlays	8.3	12.7	13.5	15.2	12.6	8.8
International Trade Administration						
Budget Authority	117	183.7	190.4[7]	197.1	3.5	0.02
Outlays	121	186.7	181.8[7]	203.2[8]	11.8	8.0
International Trade Commission						
Budget Authority	17	27.4	33.9	35.4[2]	4.4	0.89
Outlays	16	27.7	33.9	36.9	8.8	5.2
United States Customs Service						
Budget Authority	589	729.2	862.6[9]	876.0	1.6	-1.9
Outlays	575	667.6	931.3	879.0[10]	-5.6	-8.8

---

[7] Includes a proposed rescission of $11.4 million in budget authority and $8 million in outlays plus an additional $2.2 million supplemental authority for retirement contributions.

[8] Includes a proposed rescission of $3.4 million.

[9] Includes a proposed rescission of $38.9 million in budget authority and $38.2 million in outlays.

[10] Includes a proposed rescission of $8 million in outlays.

Defense R & D spending would increase 17.4 percent, or $6.5 billion in fiscal 1988. The defense-related portion of total federal R & D would increase from 65.1 percent in fiscal 1987 to 68 percent. Federal non-defense R & D as a whole would rise only 3 percent, despite signs that U.S. civilian technological and industrial competitiveness is declining. In 1985, the Northeast and Midwest received 41.1 percent of Department of Defense (DoD) funds for R & D and 40.5 percent of non-defense R & D expenditures, down slightly from the previous year. (For a state-by-state breakdown of R & D spending, see the table at the end of this section.)

The National Science Foundation (NSF), whose principal mission is to support research in all fields of science and engineering, would receive $1.9

billion in budget authority, an increase of $270 million, or 16.6 percent over fiscal 1987 level of $1.6 billion. Consistent with the administration's emphasis on basic research, NSF's support of such activities would continue to grow. In 1985, the Northeast and Midwest received 45.8 percent of the R & D funds obligated by NSF.

The Department of Commerce, which has an important role in advancing technological innovation and promoting the competitiveness of U.S. industries, would have a budget authority for science and technology of $1.39 billion in fiscal 1988, an increase of $10.9 million, or 8.5 percent, from the fiscal 1987 level. These figures are based on several changes proposed by the administration, described below.

Defense

The Department of Defense exerts tremendous influence over the direction and purpose of research and development because it supports such a large proportion of the nation's R & D efforts. DoD combines all of its R & D activities under the category of research, development, test and evaluation (RDT&E). Budget authority for RDT&E would increase by $6.5 billion, or 17.4 percent, over fiscal 1987 levels. In 1985, the Northeast and Midwest received 41 percent of defense R & D funds, significantly more than their 32 percent of total DoD expenditures.

While the proposed increases in defense R & D probably would continue to benefit those states that have received major contracts in the past, concern is growing that greater defense R & D spending may compete with private industry for research scientists and engineers. DoD directly and indirectly employs many of the nation's top scientists and engineers. With such heavy demand in many specialties, defense activities could draw critical human resources out of the private sector at the same time that industries are trying to boost their international competitiveness.

Non-Defense

Non-defense research and development activities would be funded at $20.7 billion in fiscal 1988, a $593 million (3.0 percent) increase from the current level. Outlays would increase by $601 million. The table below shows the level of R & D activity by department and agency.

The president's budget request would give six of the 11 agencies shown in the table an increase in R & D activity in fiscal 1988. NSF and NASA would receive the largest increases, 16.6 percent and 7.5 percent. Several agencies would receive cuts, including the Departments of Commerce (16.1 percent), Transportation (5.8 percent), and All Other (9.9 percent). In 1985, Northeastern and Midwestern universities and colleges, and the Federally Funded Research and Development Centers (FFRDC) they administer, received 45.8 percent of the total federal R & D funds.

Non-Defense Research and Development[1]
(in millions of dollars)

Department or Agency	Fiscal 1986	Fiscal 1987	Fiscal 1988
Health and Human Services	5,661	6,353	6,294
(National Institutes of Health)	(5,004)	(5,519)	(5,573)
Energy (DOE)[2]	4,708	4,801	5,016
National Aeronautics and Space Administration	3,420	4,185	4,498
National Science Foundation	1,336	1,441	1,680
Agriculture	925	978	961
Transportation	387	308	290
Interior	378	366	364
Environmental Protection Agency	317	329	346
Commerce	394	397	333
Agency for International Development	211	217	233
Veterans Administration	188	211	214
All Other[3]	483	514	463
Total	18,407	20,098	20,691

---

[1] Amounts include obligations for R & D.

[2] Includes spending for general science and energy program.

[3] Includes the Departments of Education, Justice, Labor, Housing and Urban Development, the Treasury, the Tennessee Valley Authority, the Smithsonian Institution, the Corps of Engineers, and the Nuclear Regulatory Agency.

Facilities

The president proposes to increase funding for research and development facilities by $58 million in fiscal 1988 from present levels. Major uses of the funds include the purchase of scientific instrumentation and the construction and renovation of laboratories and research support facilities. National laboratories and university and college research centers have been the two largest recipients in the past.

Colleges and universities, which conduct about 12 percent of the nation's total R & D and about half of its basic research, continue to face substantial, growing, and unmet needs to replace obsolete research instruments and modernize existing research laboratories. Half of the physical plant of U.S. institutions of higher learning is more than 25 years old; one quarter of it was constructed prior to World War II. Estimates of the total need for plant replacement and renewal range from $30 billion to $40 billion.

Colleges and universities in the Northeast and Midwest are among the oldest in the nation. Adequate funding for facilities is required for the modernization necessary to support the attempts of local industries to regain their technological advantage and to develop new products and processes. Four years ago, in the first year of a special five-year, $150 million instrumentation program, DoD received more than 2,500 proposals requesting about $645 million, giving some indication of the large demand.

Basic Research

The fiscal 1988 budget request would increase obligations for basic research by $312 million to $9.1 billion, or 3.5 percent above current levels. The proposed increase reflects the administration's emphasis on basic research to achieve its defense and economic goals. More funds for basic research would improve the ability of the nation's academic scientists to conduct high-quality research and educate the next generation of scientists and engineers.

The largest increases in basic-research funding would go to NSF (16.6 percent), the Smithsonian Institution (6.8 percent), and the Department of Defense (5.7 percent). NSF would conduct 17.4 percent of total basic research in fiscal 1988, and would continue to be the largest supporter of basic research in the physical sciences and engineering. Obligations for basic research would account for $1.59 billion in fiscal 1988.

National Science Foundation (NSF)

The president's request would increase NSF's budget authority in fiscal 1988 by $270 million, or 16.6 percent, over the current level of $1.6 billion. Budget authority for research and related activities would increase by $229 million, or 16.3 percent. Science and engineering education would receive an increase in budget authority of $16 million, or 16.2 percent.

Increases proposed for areas of particular interest to the Northeast and Midwest include: biological, behavioral, and social sciences ($39 million, or 15.3 percent); computer and information science and engineering ($27 million, or 22.9 percent); and advanced scientific computing ($5.3 million, or 12.3 percent). The college science instrumentation program would receive the same budget authority as in fiscal 1987, $9.5 million. Budget authority for engineering research centers would increase by $18 million to $48 million. Of the 11 centers established under the program in 1985 and 1986, nine are in the region. Funding for industry/university research centers would increase from $3 million to $3.5 million. In 1985, the Northeast-Midwest region received $612 million, or 45.8 percent, of the $1.335 billion in research and development funds distributed by NSF.

Commerce Department

The administration's request would increase the budget authority of the Commerce Department agencies that carry out science and technology programs to $1.391 billion. This would be an increase of $109 million, or 8.5 percent from fiscal 1987. However, the 1987 level includes the administration's proposed rescissions of $59 million in operations, research, and facilities, and $19 million in public telecommunications facilities, planning, and construction. Without the rescissions, the request represents a 2.3 percent increase for fiscal 1988.

The Department's National Bureau of Standards (NBS) performs research and provides services that directly enhance U.S. industrial competitiveness. In fiscal 1988, NBS would receive budget authority of $138.6 million, an increase of $15.3 million, or 12.4 percent, over the current level.

The Department's National Technical Information Service (NTIS) encourages technology transfer through the acquisition and sale of research, development, and engineering reports. In 1988, NTIS would receive budget authority and outlays of $36.4 million, $0.2 million less than fiscal 1987.

In the Economic and Statistical Analysis division, trust funds for information products and services would decrease slightly from $36.6 million to $36.4 million in fiscal 1988. The Office of Productivity, Technology and Innovation (OPTI) received $2 million in fiscal 1987, which would be reduced to $0.8 million in 1988. This office promotes private-sector innovation and improvements in technology utilization and productivity -- some of the biggest challenges facing U.S. firms as they compete in the international marketplace.

B. Trade

The president's budget request does not contain a special analysis of trade and trade-related spending. The departments, agencies, and institutions with trade-related responsibilities are spread across several federal budget functions. Even the cumulative spending of these agencies does not reflect fully all trade activities. However, this proposal does clarify some of the president's trade priorities.

Federally funded entities with trade-related responsibilities fall into three groups: agencies that promote exports, those that focus on imports, and those with programs in both areas.

Among the agencies that deal with exports, some -- for example, the Export-Import Bank (Ex-Im), the Overseas Private Investment Corporation (OPIC), and the Department of Agriculture -- promote exports directly. Others classified as multilateral developing assistance programs, including the World Bank Group and the regional development banks, promote exports indirectly through development assistance to other nations.

Under the president's proposal the Ex-Im Bank's new guaranteed loan commitments would be $10 billion, down from $11.36 in fiscal 1987. The Ex-Im Bank's new direct loans would be $1 billion, up from $900 million in fiscal 1987. The administration requests $3 billion for the Department of Agriculture's short-term export credit guarantee program, down $2 billion from fiscal 1987, and $500 million for intermediate-term guarantees, the same as 1987. In addition, it asks for budget authority of $85.6 million for the Foreign Agricultural Service (FAS), up 3.4 million or 4.1 percent from fiscal 1987.

The manufacture of products for export contribute greatly to employment in the Northeast and Midwest. In 1983, the region had 51.1 percent of the nation's total manufacturing employment, and 52.7 percent of the employment related to manufactured exports. More than one of every ten manufacturing job (11.2 percent) in the region was related to manufactured exports. (See the table at the end of this section.)

Agricultural exports also are important to the Northeast-Midwest region, especially to the Midwest. In fiscal 1984, the region had five of the nation's top ten states exporting agricultural products: Illinois, Indiana, Iowa, Minnesota, and Ohio. The Northeast-Midwest region as a whole accounted for 36 percent of the nation's total agricultural exports in fiscal 1984.

The administration would increase funding for the United States Trade Representative (USTR) and for the International Trade Administration (ITA). The USTR and ITA have responsibilities in all trade areas. Fiscal 1988 budget authority for ITA would be $197 million, up $7 million from this year. However, the fiscal 1987 budget authority includes a proposed recission of $11 million.

Among those programs and agencies addressing import-related trade issues, the International Trade Commission's (ITC) fiscal 1988 budget authority would increase by $1.5 million, or 4.4 percent. Budget authority for the U.S. Customs Service would increase by $13.4 million over fiscal 1987. However, its 1987 budget authority includes a proposed rescission of $38.9 million.

Export Import Bank (Ex-Im)

The administration estimates that the Export-Import Bank's new direct loans in fiscal 1988 will total $1 billion, $100 million more than in 1987. Guaranteed loans are estimated to be $10 billion, down from $11.4 billion in fiscal 1987.

The direct loan program offers loans generally below-market rates, consistent with an international agreement that reduces but does not eliminate interest-rate export subsidies. The administration proposes to include in the budget the subsidies associated with the bank's direct loan and guarantee programs to reflect more accurately the cost to the U.S. economy of these programs. The administration also proposes to continue the loan asset sales program involving loans with a face value of $1.2 billion in 1988.

The administration also requests an additional $200 million in budget authority for the tied-aid credit fund. Tied-aid is a form of export financing that combines development aid and official export subsidies. The administration intends to use this fund to promote a negotiated end to objectionable export financing practices of foreign governments, such as dumping goods on U.S. markets.

Overseas Private Investment Corporation (OPIC)

OPIC is a government corporation that encourages the participation of the U.S. private sector in the social and economic development of less-developed countries. Its principal programs are "political risk" insurance and investment financing. OPIC operates without general revenues. Over the past few years it has contributed approximately $100 million annually to the Treasury. It would contribute $92.9 million in fiscal 1988. The limitation on guaranteed loan commitments would decline from $200 million in fiscal 1987 to $150 million in fiscal 1988. Direct loan limits would fall from $23 million to $15 million. The administration has requested $44.4 million in budget authority for the contribution to MIGA, the World Bank's Multilateral Investment Guarantee Agency, a newly established institution, in fiscal 1988.

Agricultural Export Programs

Agricultural exports are the single largest category of U.S. exports. In fiscal 1981, the peak year, agricultural exports totaled $43.8 billion and offset nearly half of the non-agricultural trade deficit. However, agricultural exports have been hurt by the overvalued dollar. In fiscal 1985, the value of agricultural exports was $31.2 billion, down 18 percent from the previous year and almost 29 percent from 1981. The export market is extremely important to the nation's agricultural producers; nearly 40 percent of planted acreage is devoted to crops intended for export.

The Department of Agriculture has several international programs to encourage exports. The department's export credit programs are funded through the Commodity Credit Corporation and administered by the Office of the General Sales Manager. The administration requests $3.0 billion for short-term export credit guarantees in fiscal 1988, down from $5 billion in 1987. For intermediate-term guarantees, the administration asks for $500 million, the same as fiscal 1987.

The administration requested fiscal 1988 budget authority for the Foreign Agricultural Service (FAS) of $85.6 million, up $3.4 million, or 4.1 percent, from the fiscal 1987 level of $82.2 million. The FAS is responsible primarily for the expansion of foreign export markets for U.S. agricultural products. Functions of the agency include foreign market intelligence and access, development of foreign markets for U.S. agricultural products, and representation of U.S. agricultural interests abroad.

Two new agricultural export promotion programs were included in the Food Security Act of 1985. Both were amended in the Food Security Improvements Act of 1986. They developed from the president's Bonus Incentive Commodity Export Program (BICEP) proposal. The first initiative is a bonus export promotion program (the Export Enhancement Program) aimed at general market expansion for U.S. agricultural exports. It would lower the export price of U.S. commodities by making available to U.S. exporters, processors, and foreign purchasers, at no extra cost, not less than $1 billion and not more than $1.5 billion worth of surplus government commodities, down from $2 billion in the original bill. The program is designed to counter unfair foreign trade practices and generally to make American products more competitive. No outlays are required by this program because the surplus commodities were purchased in previous years.

The second program would use targeted export credits to counter the subsidies, import quotas, or unfair trade practices of specific countries. Not less than $110 million in cash or commodities would be available to U.S. exporters for fiscal 1986 through 1988, with $325 million for 1989 and 1990. Priority would be given to commodities that already have received a favorable decision under Section 301 of the Trade Act of 1974. The budget request does not provide separate figures for this program.

International Development Assistance

Proposed budget authority for multilateral development assistance -- which includes the World Bank, the International Development Association, the International Finance Corporation, and the regional development banks -- would be $2.013 billion in fiscal 1988, an increase of $534 million, or 36.1 percent, over fiscal 1987. Multilateral development banks would receive an increase of

$577 million in budget authority. Authority for international organizations would decrease by 18 percent to $194 million, down from $237 million in fiscal 1987.

The World Bank Group and the regional development banks promote growth and development in countries around the world. Such growth can stimulate economic demand and provide opportunities for increased U.S. exports, especially basic manufacturing goods produced by industries in the Northeast-Midwest region.

The Trade and Development Program (TDP), under the president's proposal, would be reauthorized and would receive $20 million in fiscal 1988 budget authority, the same as fiscal 1987. TDP finances planning services for major development projects in the Third World to foster economic development and enhance the use of U.S. technology, goods, and services. TDP activities also help to assure access to natural resources used in U.S. manufacturing.

International Monetary Fund (IMF)

The IMF is a multinational lending organization that helps member countries with serious debt or balance of payments problems. IMF's assistance gives countries time to implement policy reforms without resorting to abrupt and harmful restrictions on trade and payments. IMF has played a lead role in addressing the less-developed country (LDC) debt crisis. The 1987 quota for U.S. participation in IMF lending programs is $17.9 billion. Use of these funds by the IMF does not result in net budget outlays for the United States.

Office of the United States Trade Representative (USTR)

The administration would reauthorize the office of the USTR, and provide budget authority in fiscal 1988 of $15.2 million, an increase of $1.7 million, or 12.6 percent, from fiscal 1987 levels. The USTR is a cabinet-level official with the rank of ambassador. The USTR serves as the chief U.S. representative to a number of international organizations, including the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD) when its negotiations deal primarily with trade and commodity issues, and the United Nations Conference on Trade and Development. U.S. obligations to GATT in fiscal 1987 would be $3.7 million, down 9.5 percent from 1986, and obligations to OECD would be 23.0 million in 1987. The USTR also is responsible for developing and coordinating U.S. foreign trade policy and negotiating trade agreements.

The USTR is expected to play a central role in continuing efforts to establish an effective response to the current crisis in U.S. trade relations. Such efforts in the past have included Market-Oriented, Sector-Specific (MOSS) negotiations with the Japanese over access to their markets, implementation of the voluntary restraint agreements (VRAs) for steel imports, and initiation of Section 301 unfair trade petitions against several countries. Issues currently addressed by the USTR include a new round of GATT negotiations aimed at reducing non-tariff barriers and adding services and agricultural trade to GATT coverage; discussions of reform for the international currency exchange system (to be led by the Secretary of the Treasury); the addition of new sectors in the MOSS talks with Japan; and possible renegotiation of the Multi-Fiber Agreement (MFA) governing trade in textiles.

International Trade Administration (ITA)

ITA is a separate agency under the auspices of the Department of Commerce, with primary responsibility for the government's nonagricultural trade functions. It is charged with developing the export potential of U.S. firms and promoting an improved trade posture for U.S. industry. ITA is expected to help expand exports, improve enforcement of U.S. trade laws, and upgrade government activities covered by multilateral trade negotiations.

The administration requests fiscal 1988 budget authority of $197.1 million for ITA. This would be $6.7 million over the fiscal 1987 level of $190.4 million. However, the 1987 figure includes a proposed $11 million rescission and a $2 million supplement for retirement contributions. ITA activities are divided into four principal areas: trade development, international economic policy, trade administration, and U.S. and foreign commercial services.

The trade development program assesses the competitiveness of various U.S. industries, performs trade and investment analyses in support of industry programs and trade policy, and conducts export promotion programs directed toward industry sectors. In fiscal 1988, program spending for these activities would remain constant at $20 million.

The trade administration program is responsible for a variety of import and export activities, including enforcement of export controls; investigation of antidumping and countervailing duty cases; oversight of foreign trade zones; and monitoring compliance with voluntary restraint agreements (VRAs). In fiscal 1987, program levels would increase substantially to $5.3 million. Part of this request would allow additional staff to meet new Export Administration Act requirements. The remainder would be used to add import administration staff to handle the increased number of antidumping and countervailing duty petitions filed by U.S. industries since 1980, and to monitor the steel VRAs with other countries.

International Trade Commission (ITC)

The ITC is an independent federal agency with broad powers to study and investigate all factors relating to U.S. foreign trade, its effect on domestic production and employment, the competitiveness of U.S. products, and foreign and domestic customs laws. Although basically a fact-finding agency, the ITC plays a key role in trade policy because of its jurisdiction over cases brought under Sections 201 and 301 of the Trade Act of 1974. These cases evaluate whether unfair methods -- such as dumping, illegal subsidies, and unfair competitive practices -- are used in the import or sale of foreign-made articles. The ITC also makes determinations of whether injury to industries is due to imports and recommendations to the president on whether relief is warranted. Recent cases of special interest to the Northeast-Midwest region have involved steel and footwear imports.

The administration's budget would reauthorize the ITC and increase its budget authority by $1.5 million, or 4.4 percent, from the 1987 level. Total budget authority in fiscal 1988 would be $35.4 million.

United States Customs Service

The Customs Service would receive $876 million in budget authority in fiscal 1988, $13.4 million more than fiscal 1987. However, the president also proposes a rescission in fiscal 1987 budget authority of $23.4 million. The Customs Service is responsible for the inspection of all goods entering the United States, the collection of tariffs, and investigation of various illegal activities related to imports and exports.

The Customs Service's ability to perform these functions adequately has been strained severely by three recent developments: the huge increase in imports over the last five years; a rising number of special quotas and restrictions governing imports, e.g. textile quotas and voluntary restraint agreements on steel; and a rapid increase in the amount of counterfeit, smuggled, and illegally imported goods entering the United States. Inability to cope with these problems has cost the U.S. millions of dollars in lost government revenues and company sales, and has cost American workers their jobs. Despite these problems, the administration proposes eliminating 1,446 full-time permanent positions, reducing staff levels by over 10 percent. Similar staff cuts in the fiscal 1986 request were rejected by Congress. In fact, Congress funded 503 additional positions for this year. A Congression Budget Office analysis showed that 600 additional Customs positions would result in a net revenue increase of $1.2 billion over three years.

Trade Adjustment Assistance (TAA)

Trade Adjustment Assistance for firms and workers would be eliminated. The administration wants to combine various elements of programs now providin job search, job training, and cash benefits to dislocated workers, such as Title III of the Job Training Partnership Act (JTPA) and the trade adjustment assistance programs. The new program would help all dislocated workers regardless of how they became unemployed with counseling, job-search assistance, basic education, and job-skills training.

The tremendous surge in imports that has resulted in the massive U.S. trade deficit has taken its toll on the Northeast-Midwest region's manufacturing industries and workers. Between 1979 and 1984, when the economic recovery was at its peak, the region lost 1.6 million, or 13.7 percent, of its manufacturing jobs. The Midwest alone lost 1 million jobs, or 17.3 percent of its previous total. During this five-year period, the region's share of total manufacturing employment declined from 53.6 percent to 50.4 percent.

Employment Related to Manufacturing Exports: 1983
(in thousands)

Region and State	Total Manufacturing Employment	Total Export Related	Export Related as a Percent of Total Employment
New England			
Connecticut	420.3	57.2	13.6
Maine	109.1	8.2	7.5
Massachusetts	630.0	80.7	12.8
New Hampshire	108.9	12.0	11.0
Rhode Island	114.5	12.0	10.4
Vermont	44.3	6.9	15.5
Total or Average	1,427.1	177.0	12.4
Mid-Atlantic			
Delaware	66.2	8.5	12.8
Maryland	225.7	22.6	10.0
New Jersey	751.7	73.1	9.7
New York	1,383.3	136.3	9.8
Pennsylvania	1,113.0	118.7	10.6
Total or Average	3,539.9	359.2	10.1
Midwest			
Illinois	1,024.3	108.9	10.6
Indiana	580.8	64.9	11.1
Iowa	203.4	19.6	9.6
Michigan	874.3	111.4	12.7
Minnesota	358.5	41.2	11.4
Ohio	1,078.3	136.1	12.6
Wisconsin	477.4	50.1	10.4
Total or Average	4,597.0	532.2	11.6
South			
Alabama	333.1	29.0	8.7
Arkansas	190.8	16.1	8.4
District of Columbia	16.5	0.5	3.0
Florida	453.0	42.6	9.4
Georgia	506.5	39.5	7.7
Kentucky	245.4	21.7	8.8
Louisiana	186.5	18.0	9.6
Mississippi	203.6	14.0	6.8
North Carolina	803.8	65.9	8.1
Oklahoma	183.1	20.0	10.9
South Carolina	361.3	33.8	9.3
Tennessee	457.4	38.5	8.4
Texas	990.3	122.6	10.6
Virginia	403.2	35.2	8.7
West Virginia	89.1	11.0	12.3
Total	5,423.6	508.4	9.4

Employment Related to Manufacturing Exports: 1983
(in thousands)

Region and State	Total Manufacturing Employment	Total Export Related	Export Related as a Percent of Total Employment
West			
Alaska	10.9	3.1	28.4
Arizona	145.8	24.8	17.0
California	1,984.3	236.8	11.9
Colorado	193.3	25.8	13.3
Hawaii	22.6	0.9	3.9
Idaho	48.5	4.3	8.8
Kansas	166.1	14.4	8.6
Missouri	393.7	36.1	9.1
Montana	20.1	1.3	6.4
Nebraska	86.3	7.6	8.8
Nevada	19.6	1.7	8.6
New Mexico	30.3	1.5	4.9
North Dakota	14.0	1.3	9.2
Oregon	186.1	24.1	12.9
South Dakota	25.9	1.4	5.4
Utah	82.7	8.8	10.6
Washington	274.9	54.3	19.7
Wyoming	8.9	0.3	3.3
Total	3,714.0	448.5	12.1
Northeast	4,967.0	536.2	10.8
Midwest	4,597.0	532.2	11.6
Northeast and Midwest	9,564.0	1,068.4	11.2
South	5,423.6	508.4	9.4
West	3,714.0	448.5	12.1
South and West	9,137.6	956.9	10.5
U.S. Total or Average[1]	18,701.6	2,027.2	10.8

---

[1] Totals may not add due to rounding.

SOURCES: Staff calculations from U.S. Department of Commerce, International Trade Administration, "Manufacturing Industries--Shipments and Employment Related to Manufactured Exports for States: 1983" (Washington, D.C., unpublished data, February 1986).

Federal Research and Development Obligations: Fiscal 1985
(in millions of dollars)

Region and State	Total	By Selected Agencies			By Selected Performers		
		Defense	Non-Defense		Industrial[4] Firms	Universities[5] and Colleges	Federal Agencies
			Total[3]	NSF			
New England							
Connecticut	742.9	471.9	256.4	14.6	446.8	149.2	139.3
Maine	36.6	15.4	17.1	4.2	15.1	7.0	3.0
Massachusetts	3,268.7	2,483.9	675.5	109.3	1,613.5	649.6	178.4
New Hampshire	129.7	100.8	25.7	3.2	66.4	27.1	35.8
Rhode Island	334.0	286.1	34.9	12.9	54.7	38.9	227.5
Vermont	37.8	13.4	23.4	1.0	13.7	21.2	2.5
Total	4,549.7	3,371.5	1,033.0	145.1	2,210.2	893.0	586.5
Mid-Atlantic							
Delaware	35.4	20.6	10.0	4.8	20.0	11.8	2.5
Maryland	4,408.4	2,481.5	1,899.5	27.5	1,071.4	351.8	2,952.0
New Jersey	1,789.7	1,446.8	293.1	49.9	691.0	194.8	893.8
New York	3,123.8	1,958.1	1,031.2	134.5	2,005.0	871.2	87.2
Pennsylvania	1,330.4	669.6	610.0	50.8	668.4	344.2	238.2
Total	10,687.7	6,576.6	3,843.8	267.5	4,455.8	1,773.8	4,173.7
Midwest							
Illinois	770.6	193.7	511.3	65.5	80.0	531.6	86.0
Indiana	226.9	122.3	72.9	31.7	77.6	98.0	48.9
Iowa	149.3	49.2	96.7	6.4	41.4	87.5	19.8
Michigan	504.1	292.7	175.8	35.5	234.8	174.7	75.9
Minnesota	714.1	525.6	172.0	16.4	547.1	99.1	31.3
Ohio	1,518.5	1,029.5	468.4	20.5	779.3	160.1	535.3
Wisconsin	196.4	14.2	159.1	23.1	31.1	136.5	25.2
Total	4,079.9	2,227.2	1,656.2	199.1	1,791.3	1,287.5	822.4
South							
Alabama	896.5	547.4	346.1	2.9	340.0	74.3	461.6
Arkansas	38.5	3.9	33.2	1.3	3.6	11.8	21.7
District of Columbia	2,081.5	1,392.6	515.3	173.6	405.0	55.5	1,531.7
Florida	1,193.7	717.1	457.1	19.5	716.6	107.7	362.1
Georgia	289.6	128.2	149.3	12.1	99.9	99.2	85.7
Kentucky	65.6	26.2	36.4	2.9	10.2	24.3	30.9
Louisiana	117.3	38.4	75.0	3.9	33.8	47.0	33.6
Mississippi	172.7	91.5	79.8	1.4	15.6	26.6	122.5
North Carolina	477.0	163.1	292.9	21.0	147.5	177.2	136.7
Oklahoma	83.2	19.1	59.7	4.4	12.3	27.7	26.0
South Carolina	119.5	15.2	97.0	7.3	65.8	32.7	20.1
Tennessee	556.3	82.5	466.9	7.0	363.2	95.0	86.4
Texas	1,654.7	1,049.9	568.5	36.2	1,065.3	299.8	248.7
Virginia	2,469.6	1,988.4	464.9	16.3	1,389.9	95.7	867.9
West Virginia	66.1	1.8	45.9	18.3	6.1	29.2	30.0
Total	10,281.8	6,265.3	3,688.0	328.1	4,674.8	1,203.7	4,065.6

Federal Research and Development Obligations: Fiscal 1985
(in millions of dollars)

		By Selected Agencies			By Selected Performers		
Region and State	Total	Defense	Non-Defense		Industrial[4] Firms	Universities[5] and Colleges	Federal Agencies
			Total[3]	NSF			
West							
Alaska	50.8	13.1	30.6	7.0	6.0	13.5	29.9
Arizona	456.7	348.4	70.0	38.2	267.2	85.1	102.5
California	10,767.6	7,704.3	2,870.5	192.7	7,119.3	2,059.9	1,177.4
Colorado	629.3	234.4	334.0	60.9	295.8	148.9	107.8
Hawaii	57.9	14.0	36.6	7.3	4.6	31.6	17.8
Idaho	259.5	1.0	257.9	0.6	201.5	43.7	12.7
Kansas	138.2	103.7	30.4	4.2	100.0	29.3	7.8
Missouri	694.9	555.3	130.2	9.4	531.8	107.5	42.2
Montana	27.2	0.3	25.0	1.9	0.2	7.3	19.0
Nebraska	34.6	2.0	28.1	4.5	1.4	19.7	12.5
Nevada	490.3	116.4	372.3	1.6	399.8	9.7	79.9
New Mexico	2,364.5	1,319.8	1,040.6	4.1	728.6	586.9	1,023.8
North Dakota	33.0	0.5	31.9	0.5	6.6	8.9	16.3
Oregon	153.0	29.5	106.7	16.8	32.6	67.6	35.3
South Dakota	14.3	0.7	12.7	0.8	1.8	5.6	6.6
Utah	249.8	166.5	72.1	11.2	88.9	86.1	71.7
Washington	1,032.3	577.5	423.3	31.6	667.5	160.4	99.9
Wyoming	25.3	0.2	23.0	2.1	9.8	7.2	7.4
Total	17,479.2	11,187.6	5,895.9	395.4	10,463.4	3,478.9	2,870.5
Northeast	15,237.4	9,948.1	4,876.8	412.6	6,666.0	2,666.8	4,760.2
Midwest	4,079.9	2,227.2	1,656.2	199.1	1,791.3	1,287.5	822.4
Northeast and Midwest	19,317.3	12,175.3	6,533.0	611.7	8,457.3	3,954.3	5,582.6
South	10,281.8	6,265.3	3,688.0	328.1	4,674.8	1,203.7	4,065.6
West	17,479.2	11,187.6	5,895.9	395.4	10,463.4	3,478.9	2,870.5
South and West	27,761.0	17,452.9	9,583.9	723.5	15,138.2	4,682.6	6,936.1
U.S. Total[1,2]	47,077.9	29,628.2	16,114.3	1,335.3	23,595.2	8,635.7	12,518.9

---

[1] U.S. totals may not add due to rounding.

[2] U.S. totals do not include funds for outlying areas or offices abroad.

[3] Non-defense totals do not include funds for the National Science Foundation.

[4] Industrial firms figures include funds for Federally Funded Research and Development Centers (FFRDCs) administered by industrial firms.

[5] Figures for universities and colleges include funds for FFRDCs administered by universities and colleges.

SOURCE: Staff calculations from National Science Foundation, *Federal Funds for Research and Development*, Volume XXXV (Washington, D.C., 1986).

Other Publications of the Northeast-Midwest Institute

Reaching for Recovery: New Economic Initiative in Michigan (1985) $10.00
by Charles Bartsch

This case study of recovery from economic distress examines the steps taken in Michigan that could be applied elsewhere. They include targeted industry development programs, centers for excellence, venture capital investments, and the improvement of a state's business climate.

Education-Economic Development Series

1. **Partners in Growth: Business-Higher Education Development Strategies** (1985) $5.00 by Peter H. Doyle and Candice Brisson

The first of six monographs analyzing options for policy makers at state and local levels and in the academic community to use their resources cooperatively for economic development. Recommendations and examples are presented concerning the development of informal university-industry networks, universities as consultants to businesses, university-based industrial extension services, cooperative research efforts, the role of states in promoting innovation, and programs that foster new business start-ups.

2. **Literacy at Work: Developing Adult Basic Skills for Employment** (1985) $5.00 by Paula Duggan

The problem of adult illiteracy, especially among dislocated workers, is examined in relation to the needs of the workplace. This analysis suggests policies that educators, businesses, and public policy makers can adopt to raise worker competency levels in the basics of reading, writing, and mathematics.

3. **Education Inc.: How Schools Strengthen the Local Economy** (1985) $5.00 by Candice Brisson

This handbook for school administrators examines traditional and nontraditional ways of identifying school resources to foster local economic development. Examples of programs around the country are described, along with questions to aid school administrators in better appreciating the impact of individual district expenditures on local economies.

4. **Learning to Work: Improving Youth Employability**
by Paula Duggan and Jacqueline Mazza

This monograph explores ways that school, business, and government officials can work together to better prepare youth, especially the disadvantaged, for the job market and to improve their long-run employment prospects. It examines a range of programs that develop basic skills, pre-employment competency, work maturity, and occupational skills among the nation's future labor force.

5. **Reemploying UI: Unemployment Insurance, Training, and Job Creation**
by Paula Duggan and Charles Bartsch

This discussion describes the potential of unemployment insurance (UI) to promote retraining opportunities for program recipients. It suggests steps community colleges and training programs could take to coordinate their procedures with federal and state UI operations. The report points out ways to address the impediments to UI and training links. It also examines the use of UI in some European countries to help recipients become self-employed, and looks at the lessons they offer to U.S. policymakers.

6. **The Development Triangle: Community College Assistance for Economic Growth**
   by Ian McNett

The final monograph discusses how the nature of community colleges allows them to assist development through flexible, customized, education/economic development partnerships. Attention is given to programs offered in collaboration with local development organizations; training programs designed for specific employers or positions; entrepreneurship training; model interagency agreements; and statewide initiatives encouraging community college involvement in development efforts.

The New American Unemployment: Appropriate Government Responses to Structural Dislocation (1985) $7.50
by Paula Duggan and Virginia Mayer

This report examines policy changes that could aid in the reabsorption of dislocated workers into the labor force. It proposes that the federal government become an "enabler" of state and community-based programs to provide workers with training opportunities, remedial education, job-search assistance, and labor market information. It also reviews successful programs sponsored by labor unions, companies, and the private sector to mitigate the effects of plant closures and slowdowns on workers.

Trading in Power: The Potential for U.S.-Canadian Electricity Exchange (1984) $15.00
by Diane DeVaul, Tom Keating, and Robert J. Sugarman, et al.

This 124-page report analyzes in detail the technical, institutional, and financial aspects of increased importation of Canadian electricity to the Northeast and Midwest.

Mortgaging America's Future: Disinvestment in Federal Energy Research and Development (1984) $6.00
by Glenn McLoughlin

This study analyzes the effects of massive cuts in federally funded R&D since 1981, the consequences of halting projects in advanced stages of development, and the effects of the failure of the private sector to take up the slack.

To order any of these titles, write:

Northeast-Midwest Institute:
The Center for Regional Policy
218 D Street, S.E.
Washington, D.C. 20003
(202) 544-5200

Please add $2.00 for postage and handling to each order. All orders must be accompanied by payment.